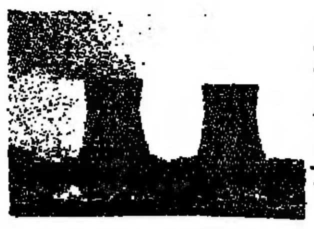

Cleaning up

A market solution for pollution

Page 12

Outdoor training

Macho myths in the mud

Page 10

Indian economy

Caution holds back growth

Page 14

Italy's reforms

The old makes way for the new

Survey, Section III

FINANCIAL TIMES

Europe's Business Newspaper

WEDNESDAY JUNE 30 1993

D8523A

Renault and Volvo to co-operate on car production

Renault, the state-owned French vehicle maker, and Sweden's Volvo said they were setting up a department to plan joint car production, adding momentum to an alliance which appears to be heading towards a merger.

Both companies stressed they would retain seperate production and their distinct identities but would deepen co-operation on what cars each produced in different classes of vehicle and on shared use of components. Page 17; Matra studies Renault, Page 18

US attacks Iraqi site: A US Air Force F-4G jet fired a missile at an Iraqi anti-aircraft radar installation after the radar locked on to an American jet, the Defence Department said. US thinks nuclear weapons destroyed, Page 4; UN-Iraq oil talks to resume, Page 4

Executives held: The Japanese government was shaken by fresh allegations of bribe-taking by a regional mayor and by the arrest of executives at four general contractors. Page 4

Embargo set to remain: *An attempt by Islamic* states on the UN Security Council to lift the arms embargo against the Bosnian Moslems appeared to be headed for defeat last night. Page 3; Bosnian presidency ends divisions, Page 3

Huhtamäki, Finnish consumer products group, is buying the European confectionery operations of Sweden's Procordia for SKr900m ($115.4m). Page 18

Ifil may bid for sugar and foods group

Umberto Agnelli (left), chairman of Italy's Ifil diversified holding company, raised the possibility of a bid battle for Eridania Béghin-Say, the Paris-based sugar and foods group controlled by the troubled Ferruzzi Finanziaria concern. Mr Agnelli said Saint Louis, the diversified holding company in which Ifil is a leading shareholder, could be interested in participating in a takeover of EBS. Page 17

Warning on waste: France threatened to curb imports of German packaging waste flooding into the country for recycling, as a result of Germany's ambitious recycling legislation. Page 16; Germany to ease law on waste burning, Page 2; Russian nuclear plants get help, Page 2

Share ban looms: Officials in Germany's IG Metall union, are to be banned from owning shares in companies on whose supervisory boards they sit. This follows the scandal in which Franz Steinkühler was forced to resign as its leader for alleged insider dealing. Page 16

YPF: Trading in Argentina's newly privatised oil company got off to a roaring start in New York and Buenos Aires. Page 19

Investor, the Wallenberg family's key holding company, is cutting debts by nearly SKr3bn ($365m) through the sale of its entire shareholding in Asea, the joint owner of the Asea Brown Boveri engineering combine. Page 17

Japanese output falls: A sharp drop in Japan's industrial output last month, combined with a marked rise in unemployment, have cast doubt on hopes that the Japanese economy is bottoming out after its two-year decline. Page 4

Joint move by rivals: BAT Industries and American Brands, rival tobacco groups, are to swap some cigarette brands in order to develop *pan-European marketing strategies*. Page 17

International Business Machines: The UK sales operations of the troubled US computer manufacturer are to be divided into 30 separate businesses as part of a far-reaching programme to restore the company to profitability. Page 17; IBM speech recognition technology, Page 19

Groupings criticised: Japan's Fair Trade Commission has found that the corporate groupings known as "keiretsu" sometimes obstruct competitors and exclude potential partners, including foreign companies, in the glass, car and paper industries. Page 6

Not the real thing? Israel's 360,000-strong ultra-orthodox Jewish community is intensifying pressure on a leading rabbi to remove his *kashrut* – the kosher certificate stamped on every product – from Coca-Cola. Page 4

■ STOCK MARKET INDICES		
FT-SE 100:	2886.0	(-11.0)
Yield	3.98	
FT-SE Eurotrack 100	1207.97	(-2.18)
FT-A All-Share	1428.77	(-0.2%)
Nikkei	19,543.42	(-343.34)
New York lunchtime		
Dow Jones Ind Ave	3514.14	(-16.08)
S&P Composite	450.61	(-1.24)
■ US LUNCHTIME RATES		
Federal Funds:	$3\frac{1}{16}$%	
3-mo Treas Bills: Yld	3.085%	
Long Bond	$105\frac{21}{32}$	
Yield	6.672	
■ LONDON MONEY		
3-mo Interbank	$5\frac{15}{32}$%	(6%)
Liffe long gilt future:	Jun $106\frac{31}{32}$	(Jun $106\frac{1}{8}$)
■ NORTH SEA OIL (Argus)		
Brent 15-day (Aug)	$17.72	(17.55)
■ Gold		
New York Comex (Aug)	$379.5	(376.1)
London	$376.75	(375.25)

■ STERLING		
New York lunchtime:		
$	1.58565	
London:		
$	1.594	(1.493)
DM	2.545	(2.5375)
FFr	8.5775	(8.5425)
SFr	2.2575	(2.2475)
Y	161.8	(158.25)
£ Index	80.8	(80.3)
■ DOLLAR		
New York lunchtime:		
DM	1.6025	
FFr	5.703	
SFr	1.5025	
Y	106.95	
London:		
DM	1.692	(1.70)
FFr	5.7025	(5.7225)
SFr	1.501	(1.5055)
Y	107.1	(106.05)
$ Index	65.1	(65.3)
Tokyo close Y 106.85		

Austria	Sch30	Germany	DM3.30	Lux	LFr60	Qatar	QR12.00		
Bahrain	Din1.250	Greece	Dr300	Malta	Lm0.60	S.Arabia	SR11		
Belgium	BFr60	Hungary	Ft172	Morocco	MDh13	Singapore	S$4.10		
Bulgaria	Lv25.00	Iceland	IKr180	Neth	Fl 3.75	Slovak Rp	KSL45		
Croatia	HRD5700	India	Rs40	Nigeria	Naira45	Slovenia	SLT220		
Cyprus	C£1.00	Israel	Sh$5.90	Norway	NKr16.00	Spain	Pta200		
Czech Rp	Kcs45	Italy	L2700	Oman	OR1.50	Sweden	SKr15		
Denmark	DKr15	Jordan	JD1.50	Pakistan	Rs35	Switz	SFr3.20		
Egypt	E£4.50	Korea	Won 2500	Philippines	Pso45	Syria	S£50.00		
Finland	FM12	Kuwait	Fils600	Poland	Zl 22,000	Tunisia	Din1.250		
France	FFr9.00	Lebanon	US$1.25	Portugal	Es215	Turkey	L7000		
						UAE	Dh11.00		

German coalition agrees $14.7bn savings package

By Quentin Peel in Bonn

LEADERS OF Germany's ruling coalition agreed yesterday to savings worth DM25bn ($14.7bn), *chiefly in social spending*, prompting a furious reaction from trade unions and opposition leaders.

At the heart of the programme is a 3 percentage point cut in labour market, unemployment and social assistance payments, combined with a time limit on payment of earnings-related benefits, saving DM14bn in 1994 and up to DM16bn a year by 1996.

The aim is to keep the 1994 federal government budget deficit about DM68bn, as forecast this year, and in following years to cut the net borrowing requirement from 15 per cent to 10 per cent of the federal budget.

The cuts, in providing some evidence of control of public spending, might open the way for the Bundesbank to make further interest rate cuts. They will also head off criticism of Germany's tight monetary policy and fiscal laxity at next month's summit of the Group of Seven leading industrial nations in Tokyo.

The plan was condemned by Mrs Ursula Engelen-Kefer, deputy leader of the German trade union federation, who said it was the most drastic assault on

- ■ Deal close on electricity supply for east Page 2
- ■ France may ban waste
- ■ IGMetall share ruling Page 16

unemployment benefits since the early 1930s.

"That had catastrophic effects on the Weimar republic," she said, referring to the ill-fated German democracy overthrown by the Nazis.

It was also greeted with deep scepticism by the banking community, where the DM25bn savings at federal government and state government levels in 1994, rising to almost DM35bn by 1996, are seen by many as inadequate.

Mr Helmut Geiger, retiring president of the savings banks association, said the real "horror scenario" remained from 1995 onwards. Only then would the full effect of borrowing for unification, by organisations such as the Treuhand privatisation agency and the German Unity Fund, fall on the federal budget. Mr Geiger also expressed doubt over plans to save up to DM6bn from fighting the abuse of welfare benefits over the next three years.

The plan was presented jointly by Mr Theo Waigel, the finance minister, Mr Günter Rexrodt, the economics minister, and Mr Norbert Blüm, the labour minister – who must bear the brunt of the spending cuts – as a great success *for the ruling coalition*.

Given the sharp downturn in the German economy over recent months, the plan, they said, was intended to strengthen growth prospects and revive Germany's reputation as an investment location, by providing a clear medium-term strategy to limit spending.

The coalition parties still face a fierce battle to push the cuts through parliament, as part of the 1994 budget, given the passionate opposition declared by the Social Democratic party.

Mr Rudolf Dressler, deputy leader of the SPD and social affairs spokesman, said the cuts would be opposed "with all the political means at our disposal."

He accused the government of lying to the public only last March, when it said that no further social spending cuts would be necessary.

However, the fact that so much of the savings falls on unemployment and labour market spending means that the SPD will find it hard to block the package entirely, although it has a majority in the Bundesrat, the upper house.

Michael Mates, the British government minister forced to step down over his association with Asil Nadir, the fugitive Turkish Cypriot businessman, made sensational accusations in his resignation speech to the House of Commons Page 16

Murdoch Asian TV bid nears collapse

By Simon Holberton in Hong Kong

MR RUPERT MURDOCH'S bid to enter Asian broadcasting through a HK$1.85bn purchase of 22 per cent of Hong Kong's Television Broadcasts (TVB) was on the verge of collapse yesterday. He was forced to ask the Hong Kong government to defer its consideration of the acquisition.

His plan to acquire a substantial shareholding in TVB appears to have foundered on Hong Kong's tough media ownership laws and complaints from China concerning the deal. It was not clear last night how the transaction could be restructured to avoid these problems.

Mr Murdoch's News Corporation said that discussions were continuing with Sir Run Run Shaw and Malaysian financier Mr Robert Kuok – TVB's two controlling shareholders – and that more time was required "to examine the structure of their proposals to the government and the Broadcasting Authority".

Earlier this month Mr Murdoch said he had forged an alliance with Sir Run Run and Mr Kuok which would create "the premier Asian company in terrestrial and satellite broadcasting". After the deal Sir Run Run would own 23 per cent of the company, News Corporation 22 per cent and Mr Kuok 21 per cent.

But the proposed deal drew hostility from Hong Kong legislators and the local journalists' association, who fear the concentration of media power. It also ran up against what appear to be insuperable regulatory problems.

Hong Kong does not permit an existing broadcaster to own more than 15 per cent of a local television licensee. Nor does it permit a foreigner to vote more than 10 per cent of a licensee's equity.

Mr Murdoch would require exemptions from the government for the TVB deal to proceed. But it emerged yesterday that such exemptions were unlikely to be given.

Neither the government nor the Broadcasting Authority "could see good reason for bending the rules", one Hong Kong government official said. "I think it is the end of it."

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France takes hard line on eve of G7 summit

By David Buchan in Paris

FRANCE hardened its opposition yesterday to reaching any deal on trade issues at next week's Group of Seven summit in Tokyo.

Mr Edouard Balladur, the prime minister, said Washington must first lift its recently confirmed anti-dumping and anti-subsidy duties on steel imports from France and other countries if there was to be "a successful conclusion by the G7 on trade agreements".

Elysée officials confirmed this was the position that President François Mitterrand would take *to the summit of the G7 industrialised nations*. They also said France saw no sense in the timing of the July 6 eve-of-summit "quadrilateral" meeting of US, European Community, Japanese and Canadian negotiators on market access issues.

"Either this will end in failure, getting the summit off to a bad start – or if there is progress, there will be no time for EC negotiators to report back on the results to the EC Council of Ministers," an official said.

That would leave France, the three other EC countries – Britain, Germany and Italy – present at the summit, and President *Jacques Delors of the European* Commission without a mandate to approve any deal. Since last year's controversial draft US-EC farm accord, Paris has insisted that Commission negotiators commit the Community to nothing without prior Council approval.

Mr Balladur yesterday announced he would not join Mr Mitterrand at the Tokyo summit since he and the president had no disagreements on foreign policy, "notably on Gatt" – the General Agreement on Tariffs and Trade.

The apparent calm with which the Mr Balladur seems ready to let the Socialist president lead a French delegation, that will also include foreign and economy ministers, stems in part from the memory of the protocol fracas that occurred when Mr Jacques Chirac, a previous conservative prime minister, insisted on accompanying Mr Mitterrand to a G7 summit in Tokyo seven years ago. It also stems from the knowledge that the president will take a hardline Gatt stance.

French foreign minister Mr Alain Juppé affirmed his team's tough stance, and said there was no question of France accepting a deal on market access or lowering tariff barriers at the summit.

Paris is incensed at what one senior official yesterday termed Washington's "fork-tongued hypocrisy" in calling for both sides of the Atlantic to reduce their steel tariffs to zero, while at the same time imposing "unilateral and discriminatory" penalties on steel imports into the US.

Usinor, the French state-controlled steel company, said it would stop exporting FFr1bn ($165m) a year of flat-rolled steel to the US after the Commerce Department said these would be hit by anti-dumping and anti-subsidy duties.

A last chance, Page 6
Editorial Comment, Page 15

Gloomy US figures prompt sharp drop in share prices

By Michael Prowse in Washington

A SERIES *of* gloomy economic statistics raised further questions yesterday about the momentum *of the US recovery* and *prompted* a sharp decline in share prices in early trading.

The biggest surprise was a 21 per cent drop in new home sales between April and May, the largest monthly decline in more than a decade. Sales fell in all regions except the west.

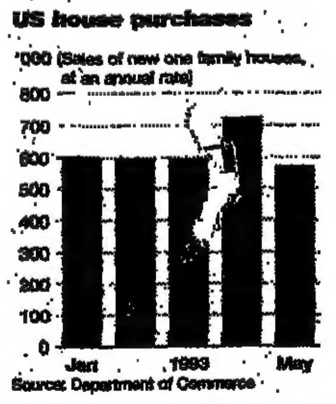
A slowdown was anticipated after an erratic 21.5 per cent rise between March and April, but analysts had not expected the previous gain to be wiped out.

Sales in the first five months of this year are barely ahead of the same period last year. Most forecasters had expected a big gain following falls in mortgage rates to the lowest level in 20 years.

Separate figures for the consumer confidence index showed a three-point decline this month to 58.9, the lowest since last October and sharply down from a recent high of 76.7 in January. In a strong recovery, the index would be expected to rise above 100.

The Conference Board, the New York-based business analysis group that compiles the index, predicted the economy would remain weak. Its latest survey of *5,000 households* indicated consumers were less positive both

US house purchases



Source: Department of Commerce

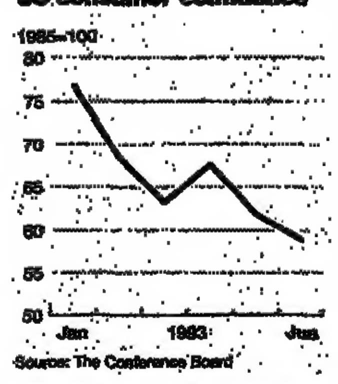
about prevailing economic conditions and in their expectations for the next six months. Buying plans had been scaled down.

Some analysts believe the weakness of confidence is a reflection of uncertainty caused by the bickering in Washington over President Bill Clinton's deficit-cutting economic plan. Sales of many items, such as cars, have held up better than consumer confidence figures might suggest.

In a third sign of weakness, the Commerce Department yesterday reported a 0.3 per cent decline in the official index of leading economic indicators in May, the third decline in five months.

The leading index is intended to predict economic conditions six to nine months ahead but

US consumer confidence



Source: The Conference Board

most analysts see it as a measure of the current economic state.

Yesterday's reports, which follow news last week of the third consecutive monthly decline in new orders for durable goods, are certain to raise fresh doubts about the economic outlook.

Merrill Lynch, the New York broker, yesterday revised down its forecast for second-quarter growth in GDP to an annual rate of 1.5-2.0 per cent. It grew at an annual rate of only 0.7 per cent in the first quarter.

The consensus view on Wall Street is that the economy will regain strength in the second half and grow at an annual rate of close to 3 per cent.

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LONDON · PARIS · FRANKFURT · NEW YORK · TOKYO

González in search for government partners

Catalan MPs courted by Socialists

By Tom Burns
in Madrid

SPAIN'S parliament yesterday met for the first time since the general election earlier this month, re-electing the speaker and paving the way for Mr Felipe González to be sworn in for a fourth term as premier.

King Juan Carlos now begins formal consultations with party political leaders and is expected to inform the speaker next week of his candidate for prime minister – certain to be Mr Gonzalez.

Mr González, whose Socialist party (PSOE) lacks a parliamentary majority, said he might include the PNV, the small Basque nationalist party, in the government and that he still hoped to persuade the more reluctant Catalan nationalists of the larger CiU party to become junior partners in a coalition administration.

The PSOE won 159 seats in the elections two weeks ago, 17 short of an overall majority in the 350-member chamber.

An investiture debate, in which Mr González would seek a vote of confidence, could be held as early as Thursday next week and the new government announced shortly after.

The Socialist leader is expected to present his programme to parliament some time next week before the vote of confidence. He needs an absolute majority to be confirmed at the first vote. Should he fail to get it, he can be confirmed by simple majority in a second vote two days later.

The need for a broad-based government has been heightened by a back-bench revolt among Socialist MPs against Mr González' nomination of Mr Carlos Solchaga as the party's parliamentary leader.

Mr Solchaga, a former economy minister, is widely distrusted by the left wing of the party and by the unions. He secured the nomination by 87 votes to 66 with six abstentions. Spokesmen for the rebel group said, however, they would respect the majority decision and pledged loyalty to Mr Solchaga.

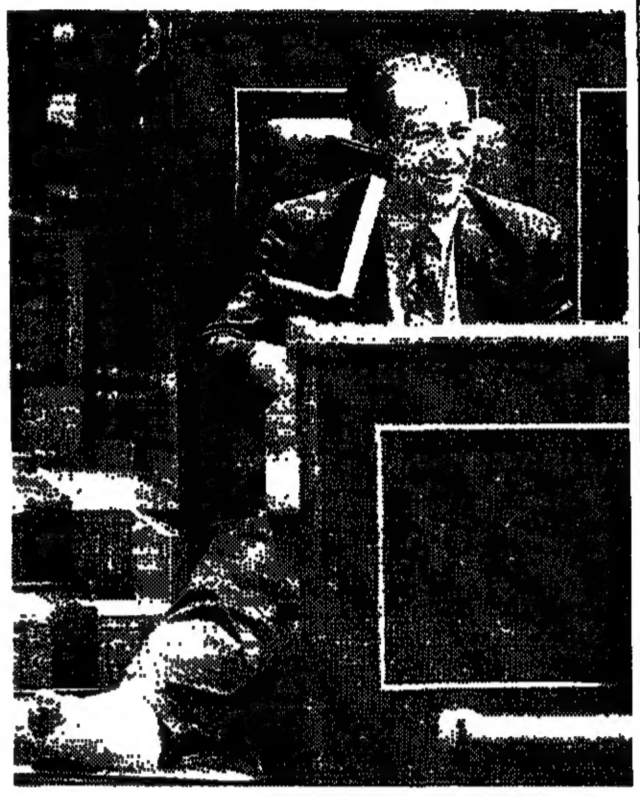
The Catalan politicians are understood to be under considerable pressure from Barcelona business leaders to overturn their initial refusal last week to back Mr González. CiU support would ensure a stable government and its business-orientated policies would reassure the markets.

Hopes for a final agreement between Mr González and the nationalist parties were fuelled yesterday when PNV and CiU members of parliament voted alongside the Socialists to re-elect Mr Felix Pons, a Socialist, as speaker. Fellow Socialist Juan José Laborda was returned as speaker of the 256-seat Senate.

Mr Solchaga meanwhile tendered an olive branch to the nationalists by co-opting a Basque MP to the parliamentary standing committee in place of a member of the Communist-led United Left (IU) group.

Reuter adds: The Basques, whose five seats would not alone be enough to give the PSOE a majority, are still open to the possibility of a coalition and have guaranteed to co-operate in creating a viable administration.

Urged by a strong current of orthodox Socialist opinion, Mr González also has the option of some sort of parliamentary deal with the United Left, which has 18 seats. He is due to meet an IU official today.



Spain's acting prime minister Felipe González (above) watching proceedings at yesterday's first post-election session of parliament. His Socialist party colleague, José Novais, is in less sombre mood as he takes his seat in the chamber with a broken leg

Ruffled feathers over new EC rules for shooting wild birds

By David Gardner
in Luxembourg

"LOOK at the little starling, it's oh so cheerful" runs a popular children's song in Denmark. So popular, it would seem, that it induced the Danish delegation at this week's European Community environment council to try to sabotage a Danish EC presidency compromise on rules for shooting wild birds.

The latest twist in the 15-year-long tale of Community efforts to legislate for the birds has arisen because the Danes prize the starling *sturnum unicolor* (as opposed to the *sturnum vulgaris*) as a songbird.

Spain and Portugal want to shoot starlings as a pest, but the Danes disbelieve Spanish claims about their hunters' ability to distinguish the vulgar from the unicolour. Britain, usually in the vanguard of birds' rights, reckons the starling actually kills more prized songbirds.

More feathers flew over whether hunters in southern Italy could shoot the black-tailed and bar-tailed godwit, because they can be confused with curlews – which, it was pointed out, the fastidious Danes are allowed to kill.

The environment ministers were attempting to amend the 1979 birds directive, to make it possible to shoot pest birds like crows, jays, magpies, jackdaws and rooks (except in the mating season). But it was not immediately clear how much of the discussion was intelligible to those conducting it.

As one EC official opined: "Magpies are stuffed either way." Another, from the UK, held to loftier philosophical ground, underlining that "the problem on pest species would not be negotiated in this way now, in the light of subsidiarity". That is to say.... if the legal mess had not been made at EC level in the first place by member states now clamouring for Brussels to mind its own business.

Yet in its original proposal, the European Commission specifically said that pest species could, and even should, be shot. But it was argued down by a bird-lovers' coalition led by Britain. This opened the way to prolonged court actions against nearly all member states, where they continued to be shot anyway.

As the Danes retired yesterday to ponder the fate of the starling, one French official grandly trumped their popular songs about starlings by pointing out that the poet Charles Baudelaire had written a famous poem about the albatross. That fabled bird, he asserted, was closely related to the gulls, cormorants and white-fronted goose which Danes can take pot-shots at, but to which the French are very attached.

"It is unthinkable for us to shoot seagulls," he fulminated. But it looked more an attempt to ruffle a few more feathers.

Germans to ease law on waste burning

By Ariane Genillard in Bonn

GERMANY intends to introduce legislation to allow both domestic and industrial waste to be incinerated when recycling proves too costly, according to Mr Thomas Rummler, a director responsible for waste disposal at the federal environment ministry.

The move would represent a shift in Germany's tough environmental policies, which place severe restrictions on incineration.

"Recycling will continue to be given priority but incineration will be permitted when recycling does not make sense economically or when it is more expensive," Mr Rummler said at a conference on waste management jointly organised by The Financial Times and the Boston Consulting Group.

Germany's environmental policies have recently been under renewed attack from industrial lobbies, including the German federation of industry. They are complaining that German waste disposal laws place an unfair burden on businesses struggling against recession and intense foreign competition.

Germany has some of the strictest environmental laws in Europe. It also has a draft bill which plans to force manufacturers to take back durable consumer goods like electronic and white goods and recycle the materials.

Industrialists at the conference raised questions on the validity of the German approach to "recycle at all costs".

Computer manufacturers, for example, argue that energy recovery, such as burning plastics and using the resulting heat for cement kilns, is a viable alternative to recycling. France, Denmark and Belgium are currently using such incineration methods.

Mr Rummler said the new legislation would foresee the construction of incineration plants. Such projects have until now been highly controversial in Germany and new moves to establish incinerators are likely to be fiercely resisted by communities and environmental groups.

Deal close on electricity supply in east Germany

By Judy Dempsey in Berlin

A DECISION is close on a formula which would gradually introduce more competition in the eastern German electricity industry. Only one local council is holding out against a deal that would resolve the future of the region's electricity supply and pave the way for limited foreign involvement.

The compromise, which involves eastern Germany's 164 local councils, the association of municipal utilities, the economics ministry, and west Germany's utility companies, would give councils access to power generation.

It would also allow them to buy 30 per cent of their electricity needs locally, or from a foreign supplier, and to form partnerships with outsiders.

The compromise, which would end the uncertainty about who had the right to generate power, also means that Vereinigte Enerkiwerke, or Veag, eastern Germany's main utility which operates the region's high voltage grid, could speed up its massive investment programme.

The deal results from opposition by eastern Germany's local councils to the *Stromvertrag*, or electricity contract, signed in August 1990 between the two Germanies.

Ostensibly it set out to modernise eastern Germany's power industry, but with little room for competition. Not only were the east's local councils denied the right to generate their own power, but the grid, sales, and distribution of energy were monopolised by western Germany's eight utility companies.

RWE Energie, PreussenElektra and Bayernwerk, the country's three largest utilities, together obtained a 75 per cent stake in Veag. The rest was divided among the five other utility companies. These eight companies were also given majority stakes in eastern Germany's 15 regional distribution networks.

In order to underwrite Veag's massive investment programme in eastern Germany, the *Stromvertrag* stated that only 49 per cent of eastern Germany's regional utilities could be owned by the local councils. The regional operators had to buy 70 per cent of their power from Veag for the next 20 years; and the local councils in turn had to buy 70 per cent of their electricity from the regional utilities.

However, the local councils, which opposed the emergence of a monopoly, appealed to the constitutional court, arguing they had the right to claim 100 per cent of the regional utilities' assets because they had owned them until 1952 before they were expropriated by the Communist regime. The court upheld the *Stromvertrag* but suggested a compromise, accepted by all but one council.

The councils will be allowed to sell their 49 per cent stakes in the regional utilities. Local cities and regional utilities are likely to have priority over foreigners. At the same time, with the assets, the councils will be free to meet 30 per cent of their energy needs from whatever source they choose. However, they must still obtain 70 per cent of their electricity needs from the regional utilities, which in turn must obtain 70 per cent of their electricity from Veag.

Poland unveils plan for oil industry privatisation

By Christopher Bobinski
in Warsaw

POLAND plans to keep its oil refining and petroleum products distribution in the hands of private domestic investors, while seeking to attract foreign investment in individual refineries and petrol station networks.

According to Dr Andrzej Olechowski, a former finance minister retained by the government to prepare a plan for the privatisation of the sector, the industry would be reorganised into a holding company, the Polish Oil Company (POC). This would then be privatised through the sale of shares at a discount to local banks, financial institutions and small investors.

A 30 per cent share would stay in state hands or foreign financial institutions like the European Bank for Reconstruction and Development, in which Poland has a share.

The plan, which has yet to be accepted by the Council of Ministers, foresees the sale of a 50 per cent share in Poland's two major refineries at Plock and Gdansk to foreign investors. The purchasers would also have the right to buy some state-owned petrol stations. The remaining 50 per cent share in the refineries would stay in the hands of the POC.

The sale of the sector, according to Dr Olechowski, is designed to raise $2.5bn for modernising the industry to improve competitiveness once 15 per cent tariffs on petrol imports start to be phased out in 1998.

● Amoco is to explore for coalbed methane in the Upper Silesian coalfield in southern Poland.

The contract for three-year drilling is estimated to be worth $10m, and will be implemented once the Polish government has agreed to ease tax provisions and provide safeguards against foreign exchange risks arising from the steady devaluation of the zloty.

Former Fiat cars chief investigated

MR Vittorio Ghidella, former managing director of Fiat's cars subsidiary, has been issued with a cautionary warrant by magistrates in Bari investigating alleged irregularities at a subsidiary of the Efim state holding company, now in voluntary liquidation, writes Haig Simonian from Milan.

The charges involve Oto Trasm, in which Graziano Trasmissioni, a company chaired by Mr Ghidella, has a 49 per cent stake. Warrants have also been issued against five other managers of Oto Trasm appointed by Graziano Trasmissioni.

The charges include embezzlement against the state and fraudulent trading of the company's shares. Mr Ghidella, who set up in business independently after leaving Fiat, is now involved in the Swiss Saurer engineering group and Italian automotive activities.

Russian N-plants get safety help

By Lionel Barber in Brussels

TEAMS OF nuclear experts have started long-term safety work at eight civilian plants in Russia and Ukraine, Sir Leon Brittan, the EC's external economic relations commissioner, announced yesterday.

The European engineers and scientists would remain on site for periods of up to 12 months at six high-risk plants in Russia and two in Ukraine, he said. "I believe we have broken the ice in our relations with the nuclear establishment in Russia and Ukraine."

They will work on improving fire-fighting, emergency power supply and cooling systems at plants in Balakovo, Beloyarsk, Kola, Kalinin, Smolensk, and Sosnovy Bor in Russia, as well as Rovno and south Ukraine.

The European Commission has agreed to allow its own consultants to contract "substantial" parts of contracts to specialised Russian companies and institutes. The EC is committed to spending Ecu333m ($175m) for making safe older Soviet-built reactors, such as the RMBK model at Chernobyl and the VVER 440/230 water pressurised reactor.

Total earmarked Community aid, including member states' contributions, is Ecu432m. This is far more than the sums promised by the US (Ecu29.6m) or Japan (Ecu10.6m, or Ecu51.9m over 10 years).

The dispatch of private sector experts follows a bilateral deal on legal indemnity in the event of accident.

Russia and Ukraine have agreed to accept liability for accidents in nuclear plants on condition that no basic changes in plant operation or in equipment are made.

Ruling defuses GM's row in Finland

By John Griffiths

A GERMAN district court order requiring General Motors to keep producing Calibra cars in Finland, while a bitter dispute with its former Finnish partner Saab-Valmet is resolved, has been set aside by the Frankfurt Court of Appeal.

The court acted after GM and Saab-Valmet, part of the majority state-owned paper machinery and engineering group, said they had reached a business compromise. Under it, Saab-Valmet's plant at Uusikaupunki, Finland, will produce up to 6,000 Calibras between June 1 this year and the end of next March, during which an arbitration panel will seek a final settlement.

The earlier district court ruling, made in March, ordered GM to allocate 30 per cent of Calibra output to the Valmet plant.

Under the compromise, both sides also agreed that neither would initiate other injunction measures during arbitration. GM ceased all Calibra production in Finland in December, moving Finnish assembly to Germany to improve capacity utilisation at its Russelsheim plant and to avoid the added cost penalties of production in Finland.

Sell-off generates FFr360bn in shares

The question is whether market can absorb them, writes **Alice Rawsthorn**

French Privatisation

OVER the next few weeks the bureaucrats at the Economy Ministry in Bercy, to the east of Paris, will put the finishing touches to legislation that will enable the French government to launch one of the most ambitious privatisation programmes seen in Europe.

The arrival of as many as 21 new companies will in the long term be beneficial to the Paris stock market which, like other continental European markets, has long suffered from a shortage of equity. But in the short term the critical question for the Bercy bureaucrats is whether the French market can absorb up to FFr360bn (£43bn) of new shares.

At first glance the market's condition is scarcely encouraging. It was virtually static in 1992 and the CAC 40 Index has risen by a meagre 6.4 per cent to 1,977 since the beginning of the year. The French economy is technically in recession.

Almost all the market's growth has come in the few weeks since Mr Edmond Alphandery, economy minister, unveiled his privatisation plans. The Paris market is traditionally strongest in the final quarter of the year, which means it should start its seasonal rally with the first new issues in September.

French companies should by then be benefiting from the recent falls in interest rates. James Capel expects the average net income of the CAC 40 companies to fall by 6 per cent in 1993 but to rise by 20 per cent in 1994. It also expects the CAC 40 Index to reach a record 2,150 by the end of this year.

However, the scale of the proposed sales means the government will have to attract new money to the French market. The state's dominance of pensions and savings means that France, unlike the UK, does not have a battalion of domestic institutions to support privatisations. The success of the issues rests on the government's ability to attract investment from foreign institutions and French individuals, as it did in the last privatisation drive in the mid-1980s.

This time it might be more difficult to mobilise foreign investment. The French issues are part of a $100bn privatisation programme across Europe and face stiff competition from share sales in Spain, Italy and the UK. Moreover international investors already have substantial holdings in France, which accounts for 23 per cent of the value of continental European equities but represents 26 per cent of a typical continental portfolio, according to Warburg Securities. They might be reluctant to increase them at a time when the franc is so strong.

"Foreign investors will certainly be interested in French privatisations," said Mr David Harrington, French market analyst at James Capel in Paris. "But it remains to be seen whether they will bring additional funds into France, or simply switch money from existing French holdings."

This suggests that the government will have to make special efforts to attract individual investors. Fewer than 11 per cent of the French own shares. The number of individual investors doubled during privatisations in the 1980s, but the 1987 stock market crash curbed the Gallic appetite for equities.

A quarter of French individual investors only own shares in one company and more than half of all portfolios are worth less than FFr50,000. The number of individual investors has fallen from 5.5m to 4.5m in the past 18 months. A recent opinion poll suggested that the French are still ambivalent about equities, with 78 per cent saying they had no interest in subscribing to the forthcoming privatisations.

However, recent reductions in French interest rates should make equities more appealing, encouraging savers to switch cash out of their once-lucrative SICAV money market funds. Investors have already transfered part of the FFr1,300bn placed in SICAVs to bonds. Analysts expect them soon to turn from bonds to shares.

The government is doing its best to accelerate this trend. Mr Alphandéry's team has devised a series of tax breaks and incentives to persuade savers to move money out of SICAVs into the FFr40bn Balladur bond launched last week as a precursor to buying privatisation shares. Another round of incentives will accompany the privatisation programme.

"There is so much money tied up in SICAVs that only a tiny proportion needs to be withdrawn for the privatisations to succeed," said Mr Joe Hall, head of European equities at Warburg Securities. "There is absolutely no reason why it should not be able to absorb the new issues – providing the price is right."

THE FRENCH government yesterday unveiled a plan to cut FFr32.2bn (£3.84bn) in public health spending over the next 18 months in a move to curb the recession-swollen budget deficit, writes David Buchan.

The health cuts, which will mainly take effect next year, take the form of lower reimbursement by the state social security system of the costs of visits to doctors and of prescribed medicines, as well as an increase to FFr55 (£6.56) of the flat fee for treatment in a hospital.

However, the chronically ill will not pay the higher charges.

France spends more on health – around FFr10,000 per inhabitant in 1990 – than any other European country, with about 75 per cent of this being funded by the state, either from the budget or from contributions levied on workers' salaries.

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Russia keeps pressure on Baltic states

By John Lloyd in Moscow

THE Russian government yesterday maintained pressure on the former Soviet republic of Estonia when a senior official suggested that the 600,000-strong Russian-speaking population would be "pushed towards territorial self-determination" if a law on aliens passed by the Estonian parliament last week was not repealed.

Mr Sergei Stankevich, political adviser to the Russian president, said the law on aliens "creates in Estonia the pre-conditions for a mono-ethnic, or single community, state".

The law's key clause, which has upset the normally acquiescent Russian-speaking community, lays down that all non-ethnic Estonians must pass a language examination over the next year as a pre-condition for continued residence.

Mr Stankevich's comments come as Estonia's north-eastern city of Narva, where the population is 90 per cent Russian, is set to vote next month in a local referendum on autonomy for the region. The issue has already been referred to the Estonian Law Chancellor, the highest constitutional court in the country.

Mr Andrei Kozyrev, the Russian foreign minister, has already threatened an energy embargo if the law is not repealed or altered. In response, Mr Lennart Meri, the Estonian president, has promised to refer the law for an "expert opinion" to the Council of Europe and the Conference on Security and Co-operation in Europe.

Mr. Stankevich was scornful of these moves and said the Estonian president "has more than once spoken out in favour of the law on aliens".

Russia is also in dispute with Latvia over what it views as "the restriction of vitally important rights and freedoms of a significant part of the population of Latvia".

Russian-speakers make up between 30 and 40 per cent of the Estonian population of 1.6m and around 45 per cent of the Latvian population of 2.4m. The countries' capitals of Tallinn and Riga are dominated by Russian speakers.

The row has halted the withdrawal of Russian troops from the two countries, though Russia says no other sanctions have been taken. The cutting off of gas supplies to Estonia was followed by a shut-down in the gas pipeline to the third Baltic state of Lithuania, with which Russia has no quarrel – both moves being blamed by the Russian gas industry on non-payment of debts.

The Nordic countries will attempt to cool the tension between Russia and Estonia when a joint initiative is proposed to the regular meeting of the Nordic Council tomorrow. Mr Carl Bildt, the Swedish prime minister, told the TT news agency yesterday that "if nothing is done there is a risk the conflict could escalate".

Solidarity seeks life outside factory

By Christopher Bobinski in Warsaw

FOUR years after the Solidarity alliance of workers, intellectuals and the Catholic church led Poles to a sweeping victory over the ruling Communist party, its former core trade union element has decided to test its support by standing alone in national elections scheduled for September 19.

The decision, taken at a union congress in Zielona Gora in western Poland over the weekend, is logical, given the political traditions of the union. However, it could be a risky gamble, forcing the organisation back to a more traditional union role.

At the moment the Solidarity Union MPs are riding high. It was their no-confidence motion which led to the government's defeat last month and the calling of elections.

But the result could provide a rude awakening to the movement if it fails to garner 5 per cent of the national vote required to enter parliament.

Such an outcome would be greeted with relief by some union veterans like Mr Jozef Polkowski at the Belchatow brown coal mine who is happy to support the congress decision. "If we win, good, we get into parliament and can defend our members there," he says. "And if we lose, all the better because then we'll become an effective trade union."

That sums up a trade union movement whose instincts have always been political. The union grew into a 10m-strong national movement which was forced undergound by martial law. It re-emerged in 1989 to fight and win the first semi-free election in June 1989. Shortly after assuming power, the stress of pushing through harsh economic reforms soon revealed the internal divisions which broke up the national movement into a myriad political parties, including the Solidarity Union.

But the trade union has been weakened as many top advisers and leaders have drifted to other parties.

The list includes Solidarity's former leader, now President Lech Walesa, whose election campaign the union backed in 1990 but with whom it has now split. By voting to stand alone in the elections, delegates at the congress showed they wanted nothing to do with Mr Walesa's "non-party bloc for supporting reform". The bloc is being organised by the president to strengthen his influence in parliament. It can be expected to do well in the election. But, in a fit of pique, Mr Walesa, who had expected to win over the delegates, refused to address the congress once he had read the hostile signals.

If Solidarity is to have a future as a union it will have to take more notice of officials like Mr Andrzej Kaminski who works at the Wedel chocolate factory in Warsaw, now controlled by PepsiCo of the US.

Mr Kaminski led the 400 unionists at the 2,000-worker plant through the 1991 transition to the private sector. He is less than complimentary about the support he received from union leaders during a year-long struggle, completed this week, to get what he calls a "decent" pay deal.

"Solidarity will have to become more professional if it is to deal with situations like mine where I have to get such commitments honoured," Mr Kaminski says.

In his view the current focus on electoral politics is really a sign that union leaders have yet to come to terms with the need to build a modern union capable of operating in a privatised economy where politics is less important than performance.

Bosnian presidency ends divisions

By Laura Silber in Belgrade and agencies

Mr Fikret Abdic, a Moslem member of the presidency, arriving for the talks in Sarajevo yesterday

BOSNIA'S collective presidency agreed yesterday to work together on a new proposal for the future of the divided republic.

A statement issued after a two-hour meeting of the multi-ethnic presidency said three of its nine members – a Moslem, a Serb and a Croat – would draw up a new document on constitutional arrangements for the republic.

"It has been decided that the presidency is going to work on a collective basis and with all members present," the statement added.

Yesterday's meeting in Sarajevo was the first time that some of the seven members of the collective presidency had visited the besieged Bosnian capital since the war erupted 15 months ago.

Mr Fikret Abdic, a challenger to President Alija Izetbegovic, and who is from the isolated north-western Moslem heartland, attended the Sarajevo meeting despite an earlier statements that he feared assassination. Mr Abdic last week broke ranks with the other Moslem representatives to the presidency, saying he would consider any agreement which would end the bloodshed in Bosnia. Mr Izetbegovic and Mr Ejup Ganic, the vice-president, have boycotted the Geneva talks on the republic's partition, saying such a move would be tantamount to collective suicide for the Moslems.

They fear the carve-up, backed by Serb and Croat nationalists, would leave the Moslems without a state. Mr Radovan Karadzic, the Bosnian Serb leader, has repeatedly threatened that if the Moslems refuse to support partition, they will be forced to accept a two-way division between the Serbs and the Croats.

The other presidency members appear divided over whether to accept the partition of Bosnia into three ethnic mini-states or continue to fight to preserve the war-torn republic as a unified state.

Mr Thorvald Stoltenberg, the international mediator, yesterday arrived in Zagreb, the Croatian capital, to meet UN officials and wait for the return of some of the presidency members. Western diplomats say international mediators are frustrated by Mr Izetbegovic's intransigence and his apparent hope that the international community will finally turn around and rearm Bosnia's Moslems.

Lord Owen, the other mediator, has vowed to work for a viable Moslem state if all three parties agree to partition. But the pattern of recent fighting makes it clear that both Serb and Croat troops intend to leave the Moslems in scattered, unconnected ethnic enclaves. This strengthens the view of many Moslems that it will be impossible to draw a border through the middle of Bosnia without confining them to landlocked ghettoes.

In apparent confirmation of Moslem fears, Sarajevo radio yesterday reported that 25,000 tonnes of emergency food aid has been stuck in UN warehouses at Croatia's Dalmatian coast. The further blockade and continued fighting along key supply routes appears likely to spur the mainly Moslem army to fight for control of the roads leading out of central Bosnia.

The Sarajevo meeting was held as Serb and Croat forces closed in on the Moslem stronghold of Maglaj in northern Bosnia.

UN resolution to rearm Moslems faces defeat

By Michael Littlejohns, UN Correspondent, in New York

A renewed attempt by Islamic states on the UN Security Council to lift the arms embargo against the Bosnian Moslems appeared headed for defeat last night, despite US support.

Britain, France and Russia all opposed the resolution and Moscow threatened to exercise its veto, if necessary, to block approval. However, that course seemed unlikely because even the most optimistic of the sponsors questioned whether the measure could command the required minimum of nine votes in favour.

American backing for the text – drafted by Pakistan, Morocco and Djibouti – was obtained through the deletion of a paragraph authorising UN forces to launch air strikes against Bosnian Serb artillery positions. Opponents of the resolution believe that rearming the Bosnian Moslems would serve only to intensify and prolong the conflict that has defied all UN peace-keeping efforts.

Britain and France, which between them have about 7,700 soldiers serving with the UN in former Yugoslavia – mostly in Bosnia – are also concerned that lifting the arms embargo or conducting air strikes would endanger their own troops on the ground.

Given the resolution's almost certain fate, the sponsors drew comfort from the prospect of a split in the ranks as the US reaffirmed its belief in rearming Bosnian Moslems.

Greek deal to buy Romanian fleet in doubt

By Virginia Marsh in Bucharest

THE fate of a \$335m (£223m) deal which would cede control of Petromin, Romania's main shipping company, to a little-known Greek company was in the balance yesterday after Romanian officials disagreed as to whether the contract should be renegotiated.

The government reaffirmed its commitment to the deal under which Forum Maritime, owned by Mr Stelios Katounis, would acquire 51 per cent of Petromin in spite of a barrage of criticism from parliament, local business and the press.

Under the existing contract, hailed as one of eastern Europe's largest post-communist investments, Forum Maritime has until today to come up with a downpayment of \$100m in addition to the \$25m it paid last week. According to the contract, Forum has until 1997 to pay the remaining \$210m.

But the chamber of commerce in Constanta, where Petromin is based, said it had begun legal proceedings to have the deal annulled in spite of the government's position. It said that, under Romanian commercial law, at least 30 per cent of Forum's investment should have been paid when the joint venture was signed.

Initially, the sale's opponents attacked the government primarily for underselling Petromin to what the local press described as a relatively obscure and small company.

Petromin owns 106 vessels totalling some 4.6m tonnes deadweight, around 75 per cent of Romania's merchant fleet. Its vessels are mainly used to transport oil and raw materials, giving it a strategic significance. Piraeus-based Forum Martime owns 12 bulk carriers, registered in Panama. It is active in eastern Europe, shipping around 2m tonnes of grain to the Commonwealth of Independent States annually, according to company officials.

The opponents' cause was strengthened by revelations on Monday that the Romanian Development Agency (RDA), the country's investment watchdog, had also opposed the deal as negotiated by Petromin and Forum.

According to a letter addressed to Mr Nicolae Vacaroiu, the prime minister, the RDA recommended that the contract be delayed until Petromin received legal advice; Forum's payment period and investment plans had been clarified; and Petromin had been independently evaluated.

Government sources in Bucharest said yesterday that Mr Ion Iliescu, the former prime minister, and Mr Vacaroiu had been so anxious to pull off a deal and to put Romania's foreign investments drive on the map that they had overlooked the RDA's warnings.

So far, Romania has lagged behind central Europe's other former communist countries in attracting western capital. Only \$672m in direct foreign investment had been committed by the end of May.

The controversy over the deal is a further blow to an already weak governing coalition, led by the left-wing Democratic National Salvation Front. Nationalist and ex-communist parties, upon which the minority government relies, are threatening to withdraw their support if the prime minister fails to explain his role in the affair.

Output down, joblessness up in Japan

By Charles Leadbeater in Tokyo

A SHARP drop in Japan's industrial output last month, combined with a marked rise in unemployment, have cast doubt on hopes that the Japanese economy is bottoming out after its two-year decline.

Figures published yesterday suggest a pick-up in economic activity in the first three months of this year may have been short-lived.

The downturn in industrial production last March was expected but, if it continues this month, the Bank of Japan will come under increasing pressure to cut official interest rates below their historical low of 2.5 per cent.

The Bank of Japan regards industrial production as one of the keys of the economy's health. Industrial production in May fell 4 per cent from the same month last year and 2.4 per cent from April, when it was down 2.5 per cent. The falls in the last two months wipe out the slight increase in industrial output in February and March, which were greeted as evidence that the economy was starting to recover.

Most significantly, inventories rose 0.5 per cent in May after falling for several months. The rise in inventories means production in June will be cut in response.

The largest falls in industrial shipments were in transport equipment, down 8.4 per cent from April, general machinery, down 8.3 per cent, and precision instruments, down 8 per cent.

Mr Geoffrey Barker, economist at Baring Securities in Tokyo, said: "The June and July industrial production data will be vital for the Bank of Japan's policy."

Unemployment meanwhile rose 0.2 per cent last month to 2.5 per cent, the highest level since 1988. Employment growth has virtually stagnated. Employment rose by 0.2 per cent to 65.27m.

The ratio of job offers from companies to the number of people seeking jobs fell to 0.81, the lowest level since November 1987. The ratio means that for every 100 people seeking jobs there was just 81 job openings.

New job offers were 18 per cent down in May the year before.

A further shake-out of labour is almost certain as Japanese companies cut costs to restore their profits. The proportion of Japanese companies reporting they have a surplus of labour, exceeded those reporting a shortage for the first time for six years according to a labour ministry survey. The survey of 2,334 companies found that 18 per cent thought they had excess labour while 16 per cent reported a shortage.

Contractors tied to bribery

By Robert Thomson in Tokyo

THE JAPANESE government was shaken yesterday by fresh allegations of bribe-taking by a regional mayor and by the arrest of executives at four general contractors, which public prosecutors say provided the politician with Y100m (£630,000) in expectation of public works contracts.

Mr Toru Ishii, the mayor of Sendai, in northern Japan, and the former head of a national mayors' association, was arrested by prosecutors, who also raided the offices of the contractors – Hazama, Nishimatsu Construction, Mitsui Construction, and Shimizu, the country's leading construction company.

The case could provide further evidence for the US government, which has claimed that bid-rigging and political deals are common in the Japanese construction market, limiting opportunities for foreign companies competing for public works contracts.

Mr Ishii's arrest was a shock for the ruling Liberal Democratic party, which has been generally pleased by its returns at a weekend election for the Tokyo metropolitan government, and is increasingly confident that the party will not perform as poorly as expected at a general election on July 18.

Prosecutors alleged that Mr Ishii, 67, sponsored by the LDP and some opposition parties at a mayoral election last year, met construction company executives at a Tokyo restaurant in April last year. They further allege that the companies gave him Y100m, three providing Y30m and Mitsui Construction giving Y10m.

The construction companies denied the funds were bribes, but prosecutors yesterday arrested the chairman, president, and managing director of Hazama, said to have arranged the restaurant meeting, and a vice-president at each of the other three contractors.

After the arrests, the Construction Ministry immediately placed an indefinite ban on the companies' participation in bidding for public works contracts under its jurisdiction. The ministry said the allegations are "regrettable" and "come when the public is losing confidence in the construction industry".

The case follows prosecutors' raids on 18 contractors' offices, inspired by the investigation into Mr Shin Kanemaru, the LDP's former godfather and fund manager, who is awaiting trial for tax evasion. The trial is due to begin four days after the general election.

LDP leaders, forced to call an election after losing a parliamentary no-confidence vote, fear that the arrest of Mr Ishii, one of the country's most venerable mayors, will again stir public demands for the reform a scandal-prone political system and provoke a voter backlash against the party.

Mr Ishii, a former official at the Home Affairs Ministry, oversaw rapid development in Sendai, the largest city in the north of Honshu, the main island.

He was re-elected for a third four-year term in November, promising to redevelop the area around Sendai station and the local harbour, projects which would be lucrative for general contractors.

Preparing China for life without Deng

Tony Walker on moves to preserve the legacy and the past of the ageing 'emperor'

IT WAS inadvertent, but it was a reminder nevertheless of one man's mortality and the great efforts to preserve his legacy as the moment of reckoning approaches. The official China Daily newspaper, in an article hailing the "historic" contributions to the revolution made by Mr Deng Xiaoping, referred to the ageing and ailing supreme leader in the past tense.

Thus, Mr Deng "was an outstanding representative and brilliant model of safeguarding, adhering to and developing Marxism, Leninism and Mao Zedong thought".

It is unlikely that China Daily's grammatical *faux pas* would have been brought to Mr Deng's attention; but as the old man's 89th birthday in August approaches, so do efforts intensify to tidy up the historical record in the certain knowledge that challenges lie ahead.

In the process of glorifying Mr Deng's theories – Mr Deng has "theories" while Mao had "thoughts" – Chinese propagandists have excelled themselves, using language reminiscent of another era. Thus, the official Shanghai newspaper Wen Hui Bao told its readers the other day that "practice had shown that Comrade Deng Xiaoping's theory is the most precious, spiritual wealth of our party and country".

It described Mr Deng as a "glorious paragon", and said that he had "made a great, historical contribution to the establishment of the theory of socialism with Chinese characteristics".

China should apply the death penalty more sparingly, end public executions, and introduce further reforms to improve human rights, says the report of a delegation to China last December led by Lord Howe, the former British foreign secretary.

The delegation found evidence of continuing violations of human rights. Its report calls for an "urgent review of all summary forms of administrative detention, with a view to their early abolition".

It urges an end to the practice of holding elderly clergy in prison or detention centres because their beliefs are "repugnant" to the Chinese authorities.

It calls for a reduction in the number of offences which carry the death penalty and says prisoners should not be paraded before execution. Also, the use of organs from executed prisoners for spare part surgery should stop, it says.

Ever since Mr Deng's clever phrase designed to avoid conflict with socialist orthodoxy was woven into the Communist party's constitution at its 14th Congress last October, efforts have been accelerating to try to ensure that the Deng legacy will endure and his heirs afforded some protection in a difficult phase.

The Communist party itself faces enormous challenges, and perhaps a threat to its very existence, in managing China's transition to a market economy. In the process central control is being loosened in almost every way.

In the past few weeks efforts to promote Mr Deng's theories have built up to something of a climax with a heavyweight symposium in Shanghai, accompanied by blanket media coverage. Final editing is also well advanced of the Selected Works of Deng Xiaoping 198392. The earlier selected works 1975-82 was published in 1983.

All this suggests that not only are Mr Deng and his supporters anxious to impress their version of history on the party and the country while the old man retains his faculties, it may also indicate that his health is indeed deteriorating more quickly than has been admitted; although Chinese leaders have long defied predictions of their imminent demise.

Mr Deng has been variously reported to be suffering from throat cancer, which would explain his inability to utter more than a few and virtually unintelligible hoarse sentences in public; from Parkinson's disease, hence his unsteady hands; from the effects of a stroke which caused a bad fall when he was visiting Shanghai in January; or simply from debilitating old age complicated by heavy smoking.

Whatever the truth, it is clear he is not all that far from an appointment with Karl Marx – his favourite euphemism for death – and has therefore become more than usually preoccupied with how others might view his record. Indeed, Mr Deng is said to have paid close attention to the editing of his selected works and to have intervened to ensure that no mention was made of his role in decisions which led to the 1989 massacre of students in Tiananmen Square and other unfortunate episodes from the past.

Mr Deng is not about to arm revisionist historians with incriminating material that might facilitate negative judgment of his record. The official version of his theories, enshrined in numerous weighty volumes, including a six-volume, 1.8m-word Almanac on Deng Xiaoping's Works, Thoughts and Life published recently, guards against expected assaults on his reputation and record.

But for the moment Mr Deng cannot complain. No hint of criticism has appeared anywhere. A small publishing industry has been constructed to ensure that volumes of his ideas fill libraries throughout the country with titles such as Creativity and Timeliness of Deng Xiaoping's Theories; never mind that the pragmatic Mr Deng has been a man of action rather than words.

Perhaps no other event in Mr Deng's recent past has received quite so much attention as his *nanxun*, or "imperial tour", of the south in January 1992 in which he urged quicker economic reform with the phrase "do it faster". This earthy instruction galvanised a nation and helped produce the astonishing rates of economic growth witnessed in the past year. The *nanxun* may well come to be regarded as his crowning achievement.

Mr Deng has said or written little publicly in the past few years, but when he does speak, or has views attributed to him, it underlines his immense preoccupation with the post-Deng era, and the danger of old controversies and feuds resurfacing which might cause his legacy to unravel.

According to the Chinese-affiliated journal The Mirror, published in Hong Kong, Mr Deng has urged his colleagues to avoid ideological conflict and to concentrate their efforts on promoting economic reform.

"Whoever sows seeds of dissension over ideological matters will be shoved aside," he was quoted as saying. The problem for Mr Deng and his heir is that this "shoving aside" will prove infinitely more difficult to effect from the grave.

US thinks Saddam's N-weapons destroyed

By Jurek Martin in Washington

THE US believes that Iraq's nuclear weapons programme has now been "essentially destroyed" though President Saddam Hussein retains the longer term ambition of rebuilding it with indigenous and foreign resources.

In testimony before congress, Mr Robert Gallucci, the assistant secretary of state for polito-military affairs, also conceded that US and other intelligence agencies had significantly under-estimated the extent of the Iraqi attempt to acquire offensive nuclear capability.

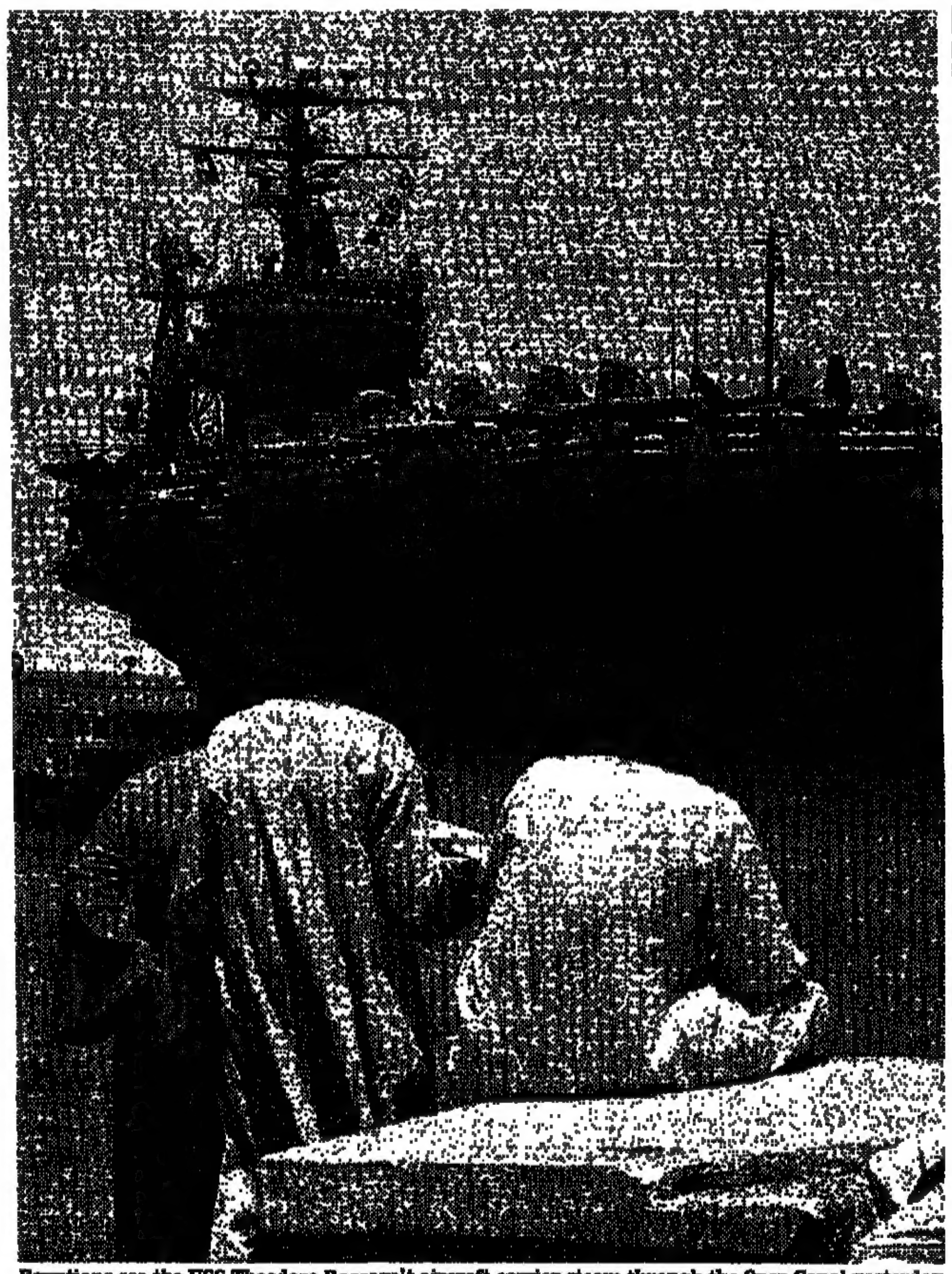
"It is clear in retrospect," Mr Gallucci said, "that they got it wrong and that there were large elements of the Iraqi nuclear programme unknown to the intelligence communities."

He was confident that the nuclear ambition was now "out of business" as a result of the efforts led by the International Atomic Energy Agency under UN auspices. But he concurred with the recent judgment of Ambassador Rolf Ekeus, the UN special commissioner on Iraq, that Iraq's weapons programmes would "grow like mushrooms after rain" if UN sanctions against Iraq were lifted.

Mr Gallucci said the US, as well as the IAEA, was aware of the identities of foreign concerns that had supplied Iraq.

● An Iraqi official said yesterday the only way to deter more US attacks on Iraq was to strike at the interests of Washington and its allies in the Gulf. Reuter adds from Baghdad.

Mr Nouri al-Marsoumi, senior under-secretary in the information ministry, said in an article about the US cruise missile attack on the Iraqi intelligence headquarters on Sunday that if it went unpunished, Washington would be more likely to make further attacks.



Egyptians see the USS Theodore Roosevelt aircraft carrier steam through the Suez Canal yesterday

UN-Iraq oil talks to resume

By Michael Littlejohns, UN Correspondent, in New York

HIGH-LEVEL talks between the United Nations and Iraq will begin in New York on July 7 aimed at resumption of limited Iraqi oil exports, it was announced last night. The Security Council agreed in resolutions in August and September, 1991 to ease sanctions so Baghdad could export up to \$1.6bn (£1.06bn) worth of oil. About \$1bn of income would be earmarked for humanitarian needs, with the rest going to pay UN costs since the Gulf war, including destruction of Iraqi heavy weapons.

Several negotiating rounds between the two sides in New York and Vienna failed with Iraq saying conditions imposed violated its sovereignty.

■ Russia has kept up high-level contacts with Iraq and is ready for economic co-operation "as soon as sanctions are lifted," Mr Anatoly Adamishin, deputy foreign minister, said yesterday, John Lloyd adds from Moscow.

Sharif tightens grip on Punjab

By Farhan Bokhari in Islamabad

THE GOVERNMENT of Mr Nawaz Sharif, the Pakistani prime minister, last night sought to take control of the Punjab, the country's most populous province and an important industrial and agricultural region.

A resolution passed in a joint sitting of parliament asked the president to impose direct federal rule in the province.

The move was seen as an attempt to head off potential opposition from within the Punjab provincial assembly.

There were fears that the imposition of direct rule could cause the worst setback to government-opposition relations since Mr Sharif's return to office, and his efforts to begin negotiations with all his political rivals.

"These people have subverted the constitution," said Ms Benazir Bhutto, the opposition leader. Her People's Democratic Alliance said the government had pushed through the resolution although there was no breakdown of the provincial government, which would require federal rule. Opposition MPs walked out before the final vote.

● A joint report by the US-based Asia Watch and Physicians for Human Rights, published today, says Indian security forces in Kashmir "have systematically violated international human rights and humanitarian law by summarily executing detainees and killing civilians in reprisal attacks", Reuter reports from New Delhi.

"Extra-judicial executions and disappearances in Kashmir number at least in the hundreds," said the report.

The rebellion in Kashmir, the only Moslem-majority region in mainly Hindu India, flared in 1990. Moslem rebels want independence or merger with Pakistan.

Coke fails the kosher cola test say rabbis

By Julian Ozanne in Jerusalem

IN ISRAEL things don't always go better with Coke.

The country's 360,000-strong ultra-orthodox Jewish community is intensifying pressure on a leading rabbi to remove his *kashrut* – the kosher certificate stamped on every product – from the soft drink.

Coca-Cola is the latest victim of a rising tide of fundamentalist Jewish consumer boycotts. Among Coca-Cola's "sins" are sponsorship of the music cable television channel MTV, "immodest advertising", and desecration of the sabbath by advertising on Saturday – including sponsoring the Jerusalem International Film Festival which will show films on the sabbath.

The focus of the pressure is Rabbi Moshe Landa, chief rabbi of the Bnei Brak rabinical court, who granted the kosher certificate to Coca-Cola.

Rabbi Landa last month successfully pressed for the withdrawal of the kosher certificate from Pepsi because of its sponsorship of Michael Jackson concerts and its "immodest" advertising which was "poisoning the souls" of Israeli youth.

The attack against Coca-Cola comes a week after leading rabbis signed a religious decree calling for the removal of *kashrut* certificates from food companies which use advertising agencies that produce "immodest" billboards.

"The holy land is filled with abomination. We cannot walk in our streets," said Rabbi Eliezer Schach, one of the sponsors of the decree.

In Haredi (ultra-orthodox) neighbourhoods billboards have been put up attacking the rabbi. One says: "Coca-Cola continues to enjoy all worlds: they enjoy the Rabbi Landa certificate and give platforms to idol singers of the most lowly and abominable kind."

The PR departments of Coca-Cola and Pepsi are trying to play down the problem but are refusing to alter their advertising. Among the objections of the orthodox community are Pepsi's use of the slogan "The new generation" and billboards showing a young woman in jeans showing her bare arms and a hint of stomach.

"You have to understand that the Haredi feel that they are not just fighting a soft drink but a culture," said Professor Menachem Friedman, a sociology lecturer at the Bar Ilan university. "Like the Moslem fundamentalists they feel Pepsi and Coca-Cola are selling a type of western secular permissive culture which identifies with movie stars and rock bands. They find themselves increasingly threatened and in a war with that culture."

Whitewash claimed over death of Algerian leader

By Mark Nicholson in Algiers

MORE THAN 1,000 Algerians gathered yesterday at the tomb of Mr Mohammed Boudiaf to commemorate the assassination of the head of state a year ago and protest at what they consider a whitewash in the official explanation of his death.

At the government's behest, traffic across the country came to a respectful halt during a moment of silence at 11.30am, the hour of his shooting in the eastern town of Annaba.

However, crowds at the el-Alia cemetery turned the gathering into a demonstration, waving banners calling on the government to tell "the whole truth" about the killing and chanting "The assassins are in power".

Postcards were distributed addressed to President Ali Kafi demanding a full explanation of the assassination.

The official verdict on the killing, the result of a commission of inquiry, was that the assassination was the act of one of his bodyguards, Mr Lembarek Boumarafi, who opened fire on the 72-year-old leader while he was making a speech. Mr Boumarafi is under arrest and waiting trial.

Mr Boudiaf had returned to Algeria barely six months earlier from nearly 30 years of exile to lead his country, after the resignation of Mr Chadli Bendjedid as president, and immediately gained popularity for his plain speaking and claims that he would clean up corruption.

But yesterday's demonstration, and press comment this week, indicate that few Algerians are satisfied. "The explanations given have convinced no one," said an editorial yesterday in Liberté, the francophone daily.

The unease and suspicion have been heightened among Algeria's secular intellectuals in recent months by a spate of other murders of prominent scholars and writers in what appear to have been carefully planned operations.

The most recent victim, Mr Mohammed Boukhobza, a sociologist and head of the National Institute for Global and Strategic Studies, was killed a last week, his throat slit in his own home by four assailants in front of his family.

The killings are widely – though not universally – assumed to be the work of Islamic extremists who have been involved in a bloody hit-and-run battle with security forces since the 1991 elections were suspended. Since a state of emergency was imposed in January 1992 at least 1,000 people have died in political violence.

However, Mrs Fatiha Boudiaf claimed in a newspaper interview this week that the killings of intellectuals were part of the "same morbid plan" as the conspiracy she claims lay behind her husband's death.

Australia 'needs to raise A\$20bn'

By Emilia Tagaza in Melbourne

THE AUSTRALIAN government is under pressure to introduce new direct taxes and broaden indirect taxation. An official report yesterday showed national savings at the lowest level in 30 years and that the government needed to raise A\$20bn (£8.6bn) a year in order to achieve its target budget deficit of 1 per cent of gross domestic product in 1996.

The report, commissioned by the federal government, found that national savings stood at 16 per cent of GDP. The low savings level was due largely to the public sector, with both federal and state governments running greatly increased deficits in recent years.

Some new taxes that could be considered were inheritance and wealth taxes, and widening capital gains tax to include family homes.

Mr John Dawkins, the federal treasurer, is expected to use the report as ammunition in next week's annual meeting with state premiers to prepare for the federal budgets. State governments have been openly hostile to Mr Dawkins' calls to further cut their spending and raise taxes.

● Australia yesterday accepted a A\$45m compensation payment from Britain for cleaning contaminated nuclear tests sites in South Australia used by the UK in the 1950s, Reuter reports from Canberra.

Senator Gareth Evans, foreign minister, and Mr Simon Crean, primary industries minister, said details would be settled soon and Australia would agree not to pursue further its claims relating to the test sites at Maralinga and Emu.

The test sites were home to Aborigines.

The Tjarutja Aborigines were granted title to traditional lands inside Maralinga in 1984, before a scientific team discovered the land was more contaminated than the British had reported.

The Aborigines are now denied access to 1,200 square miles of their land because of the contamination and are seeking compensation.

Non-aligned defer to rich nations' summit

By William Keeling in Jakarta

INDONESIA'S President Suharto yesterday accepted Japan's invitation to visit Tokyo immediately before the summit of the Group of Seven leading industrialised nations which starts a week today, thereby resolving a possible diplomatic wrangle.

Indonesia had asked to attend the summit as head of the 108-member Non-Aligned Movement (NAM) in order to present the views of developing countries. The issue of Indonesia's attendance had been embarrassing G7 members, which were concerned to avoid setting a precedent.

As one G7 diplomat explained: "We currently have a very sensible and moderate chairman of NAM but we do not want...in six years' time to be faced with inviting Gadaffi of Libya."

Mr Suharto will now visit Tokyo from July 4-6 and meet Mr Kiichi Miyazawa, the prime minister. Japan has promised to include matters raised by Indonesia on the summit agenda. President Suharto may also take up an invitation to meet President Clinton and may meet other leaders.

Indonesia pledged to improve north-south dialogue when it took over the NAM chairmanship last year. Items likely to be raised by Mr Suharto in Tokyo are debt relief for the world's poorest nations and the effect of unstable commodity prices on the export earnings of developing countries.

General strike call in Nigeria

Supporters of the self-declared winner of Nigeria's presidential election are calling a general strike to protest against the military's decision to scrap the poll, Reuter reports from Lagos. "There is a possibility of a general strike this week. It is just a matter of time," said Mr Fred Eko, aide to Mr Moshood Abiola, candidate for the Social Democratic party.

ADVERTISEMENT

Leading through Strength in R&D

In support its core activities in 'Electronics and Energy', Toshiba Corporation has expanded into vast array of fields—information and communication systems and electronic devices to heavy electrical apparatus, and consumer products.

In each of the areas Toshiba has targeted, the secret behind the company's success, believes company president Fumio Sato, is the high priority placed on research and development.

By Russell McCulloch

Mr. Fumio Sato, President and Chief Executive Officer, Toshiba Corporation

Technologies—A Driving Force for Corporate Growth

McCulloch: We are all looking forward to a recovery in the world economy. What do you think is the most important factor for Toshiba's continued corporate growth?

Sato: Kisaburo Yamaguchi, a former president of Toshiba, once said that a manufacturer without R&D facilities is like an insect without antennae. Strong technological capabilities provide the basis, the driving force, for corporate growth. This means that the ability to create innovative products is a key factor determining corporate strength in this severe business climate.

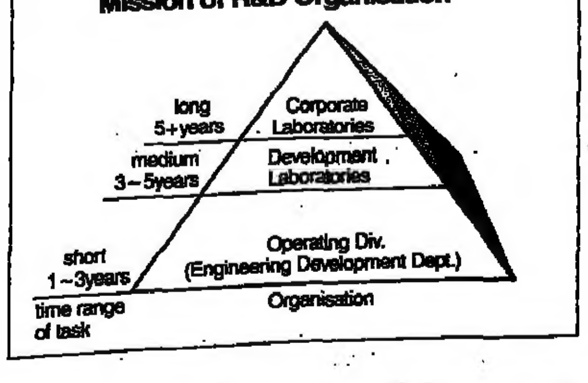
R&D also plays an important part in our "Three G" policy, covering Growth, Group and Global. To achieve growth, we have to direct our resources to facilitate expansion in promising areas. Our group policy is geared to enhancing group R&D, and so strengthen the overall capabilities of Toshiba Group. Our global target is continued promotion of globalisation, including expansion of overseas R&D and production. Here, we are also pursuing greater localisation in the management of our overseas subsidiaries, and realising our policies for competition, cooperation and complementarity through global alliances with major international companies.

Three-tier R&D Structure

McCulloch: How is Toshiba's R&D organised?

Sato: Our business interests are very diverse, ranging from information and communication systems and electronic devices to heavy electrical apparatus and consumer products. We see our field as "Electronics and Energy", from which we have derived the Toshiba slogan "E&E." We carry out research in the wide variety of technologies required to support "E&E."

Our R&D is organised in a three-tier hierarchy, with laboratories at each level carrying our different assignments. In the first-tier, the laboratories at our corporate Research and Development Centre conduct research from a long-range perspective of more than five years. That is, working on basic technologies that might be utilised in products in five or more years from now. The second-tier development laboratories belong to our different business groups. They are oriented to practical application of the technologies developed in the corporate labs, and are looking at commercialisation of new products within a three to five year time span. Final commercialisation, in under three years, is carried out by the engineering departments in each operating division.



McCulloch: It sounds as if the corporate laboratories are pushing forward essential research. Can you tell me more about their structure?

Sato: Well, in October last year we completed a major restructuring of corporate research and development. What we wanted to achieve was a further refinement of our capabilities. We wanted to break down barriers, promote inter-disciplinary activities and quicken our responses to fast-changing trends. We now have eight laboratories that make up the R&D Centre. They are Advanced Research, Materials & Devices Research, Communication & Information Systems Research, Energy & Mechanical Research, ULSI Research, Systems & Software Engineering, Environmental Engineering, and the Kansai Research Labs., which are responsible for R&D in information and communication technologies. Each of these is free to carry out their own projects. There is one more organisation I should mention. The Manufacturing Engineering Research Centre is responsible for developing production technologies used throughout the company. These are essential for reliable mass production of precision equipment.

McCulloch: What about numbers? How many engineers work in R&D?

Sato: Quite many. One of the reasons why so many Toshiba products enjoy worldwide recognition is because they incorporate the skills of our engineers and researchers, who number about 45 per cent of Toshiba Corporation's 75,000 employees. Researchers alone account for around 20 per cent of all employees. About 60 per cent of these work in the engineering departments, with the others equally divided among the R&D Centre and the development labs.

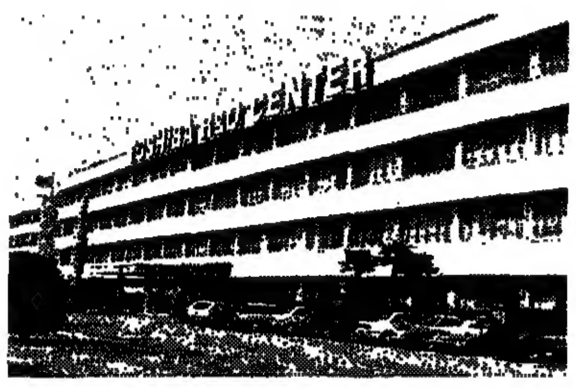
McCulloch: You have an extensive R&D structure in Japan. What about overseas?

Sato: We have four important overseas facilities. In January 1991, we set up the Toshiba Cambridge Research Centre in the UK to carry out basic research in semiconductor physics. Europe has taken the initiative in research in this field. In the US, our Advanced TV Technology Centre, established in May 1990, is working on new TV technologies, including High Definition TV. We also have US R&D facilities for software for information and communications systems and medical equipment.

Working towards a Synergy in Operations—Multimedia Business

McCulloch: Nowadays, we hear a lot about integrating technologies from different fields and about the impact multimedia will have. How is Toshiba responding to this trend?

Sato: Multimedia has become a buzzword



in the computer and consumer product industries. My understanding of the concept is that there are many different media that can carry and present information: video, text, visual images, sound. When they are handled as analog data—the way most media are still configured today—then each medium has its own analog form. That means different kinds of information can't be handled together, in the same way or within the same framework. Now we are seeing a "digital revolution" that will be more or less complete by the beginning of the next century. As with computers, all information sources will be fused in digitalised data and we will be able to process it in one, unified framework. Digitisation removes the differences between media, fusing them into the framework of multimedia. Consequently, more effective use of information will be realised and we expect our creativity to be dramatically enhanced.

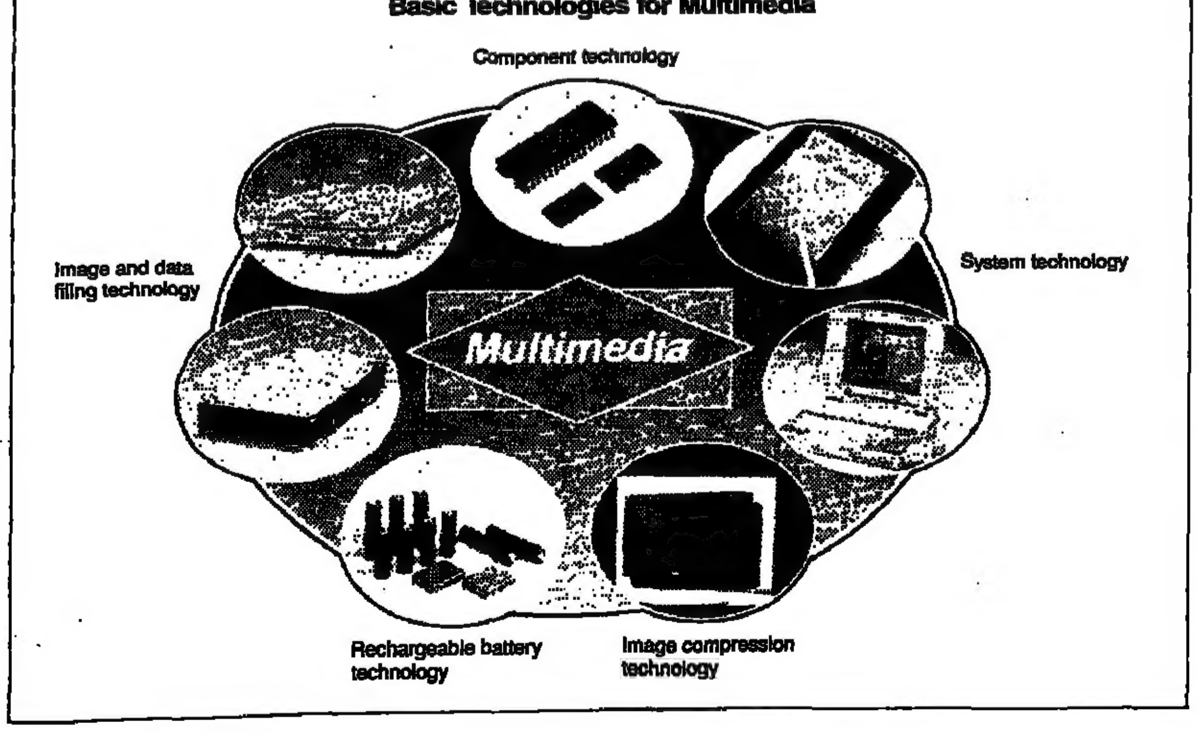
McCulloch: So, multimedia means a fusion of the information, communications, audio and visual imaging equipment fields?

Sato: That is right. And that is why I believe Toshiba is one of the companies best positioned to realise the full potential of multimedia. As a comprehensive electronics maker, we are working towards a synergy in the wide range of products and services we cover in our operations. Electronic components, image compression, image filing and battery technologies are indispensable to multimedia. Toshiba has already made major advances in all these areas.

McCulloch: Can you give me some details?

Sato: As I am sure you know, we play a leading role in the world semiconductor market. We have also pioneered the research, development and commercialisation of liquid crystal displays (LCDs). In image compression, we are working to establish a world standard for a compression format which can send and record images without deterioration. Toshiba is a major player in CD-ROM and optical disks, products that have a central role to play in large volume data storage. In batteries, a joint venture with Asahi Chemical Industry to develop and manufacture lithium-ion rechargeable batteries has just started operation. These are next-generation batteries that are small and light-weight. With Apple Computer of the US, Toshiba is working on CD-ROM based personal multimedia players.

Our efforts are not only tied to hardware. Our limited partnership with Time Warner gives us access to an extensive software library.



Directing Resources for Progress towards the 21st Century

McCulloch: My understanding so far is that Toshiba has an extensive R&D operation and is active in a wide range of technologies. Turning to the long-term, which business areas will you focus on for the 21st century?

Sato: We are great believers in the benefits of a highly advanced information society, and we are making every effort to support its realisation. We are investing our resources in information and communication systems, particularly in the areas of broadband communications, high-speed information processing and digital technologies.

Our electronic components business is one that will continue to be central to growth. As one of the world's leading IC manufacturers, we will maintain our competitiveness in the market by providing further high value added products. To take one example, we are working on the process technology for a future generation of 256 megabit DRAMs in a joint development with IBM and Siemens. We are also very active in promoting flash memory technology, through alliances with major companies. This is a very exciting product with a lot of potential, including the eventual replacement of hard disk drives. We are cooperating with IBM Japan in another key area, large-size colour LCD.

In the energy business, we are focusing on fuel cells and combined cycle power generation, which enhances heat efficiency by combining conventional thermal power generation with a gas turbine. These efforts allow us to play an active role in tackling conservation of limited resources and supporting environmental protection.

"E&E" Supports the 21st Century

McCulloch: What kind of integration technologies are necessary for the 21st century?

Sato: I believe that the depletion of resources and the destruction of the environment will be critical problems in the 21st century.

Look at transportation. Every day, countless trucks are on the roads, carrying masses of products, materials and food. They cram the streets, burn non-recoverable fuels, and damage the environment. Ultimately, they hurt economic development and deplete natural resources.

Toshiba is conducting R&D into a new type of transportation system, a super-conducting magnetic levitated train. Here we are able to combine our wide-ranging capabilities in electronics with transportation technology, and develop an answer to our traffic problems. This is exactly the kind of integration made possible by our commitment to "E&E."

I believe that Toshiba has a lot to offer the world, as we cover a wide variety of businesses through Electronics and Energy. We have a huge potential to contribute to the progress of world society. The way I see it, that contribution is Toshiba's mission.

In Touch with Tomorrow
TOSHIBA

US, Russia sell fighters to Malaysia

By David White, Defence Correspondent

A FIERCE 18-month contest between the world's leading military aircraft manufacturers ended yesterday with a decision by Malaysia to split its purchase between Russia and the US.

Mr Najib Abdul Razak, Malaysian defence minister, announced it would buy 18 MiG-29s and eight McDonnell Douglas F/A-18s. Details of the deal, thought to be worth more than $1bn, have still to be be negotiated.

He said the Russian jets would be paid for in "cash and commodities" while the US aircraft would be paid for in cash.

By opting for MiG-29s, Malaysia will become the first member of the Association of South-East Asian Nations (Asean) to equip itself with Russian aircraft. The other members are Indonesia, the Philippines, Thailand, Singapore and Brunei.

The contest, to replace ageing US-supplied F-5 fighters, was narrowed down after Malaysia rejected the French Mirage 2000 and the Anglo-German-Italian Tornado.

Also eliminated in the competition was the Lockheed F-16, the most successful fighter in previous sales contests in the region.

Lockheed F-16s are in service in Indonesia, Thailand, Singapore and South Korea and on order for Taiwan.

Malaysia originally planned to buy a squadron of Tornados from the UK under a 1988 accord but changed its mind two years later and bought British Aerospace Hawk light fighter/trainers instead. It subsequently studied the possibility of leasing Tornados.

Russia reinforced its sales campaign by proposing to accept part-payment for the MiG-29s in palm oil and other products.

However, the Royal Malaysian Air Force voiced concern about Russia's ability to support the aircraft once in service and is reported to have insisted on including at least some of the multi-role F/A-18s. The only other country in the region with F/A-18s is Australia.

● Japan Air System, Japan's third biggest carrier formerly called Toa Domestic, yesterday ordered seven Boeing 777 aircraft worth $820m, writes Daniel Green. The 777 is a new family of twin-engine widebody airliners in which Boeing has invested about $4bn. It will enter service in 1995.

Philips to move its audio HQ to Singapore

PHILIPS, the Dutch electronics group, is to move the headquarters of its audio business from the Dutch town of Eindhoven to Singapore, reflecting the buoyancy of economies in the Far East and their importance in setting new trends in consumer electronics, writes Ronald van de Krol from Amsterdam.

The move to Singapore will also bring management closer to Philips' audio production sites in Hong Kong, Malaysia and Singapore, where the bulk of the company's hi-fi equipment is made. Philips has only two audio production sites left in Europe, one in Austria and the other in Belgium, which is already being slimmed down.

Philips' main competitors, especially Sony of Japan, are also located in the Far East.

The transfer away from Eindhoven is part of a strategy of getting closer to the market. Previously, the car stereo business was moved to Germany, the centre of Europe's motor industry, while the video business's management was shifted to Vienna, where Philips produces video cassette recorders.

Philips' audio staff in Eindhoven will be cut to 20 from 66. Thirty-five jobs will be eliminated, and the rest will be transferred to the Far East. Overall, Philips employs 6,625 people in audio, most of them in Far Eastern factories.

Qatar in $1bn LNG venture

The Crown Prince of Qatar yesterday approved a $1bn joint venture between Qatar General Petroleum Corporation and Mobil of the US to produce 10m tonnes per year of liquefied natural gas, Reuter reports from Dubai.

The 70-30 joint venture, called the Ras Laffan Liquefied Natural Gas Company, was formed in December 1992.

Qatar has three large projects to produce 22m tonnes of LNG per year.

Qatar's proven gas reserves, among the largest in the world, exceed 250bn cubic feet.

Czechs win loan to modernise telecoms

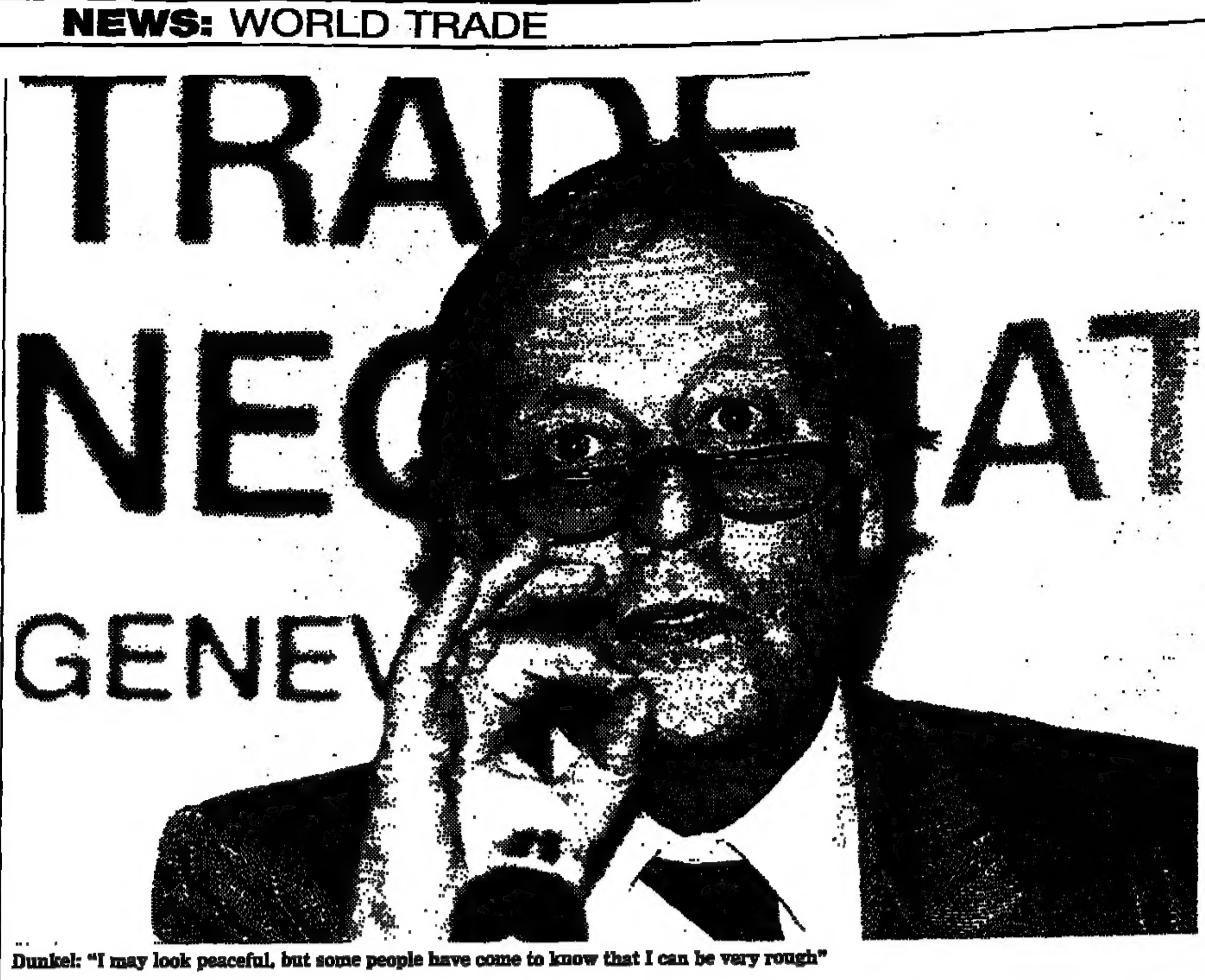
By Andrew Adonis

THE European Investment Bank yesterday announced an Ecu65m ($77.35m) loan to the Czech Republic to help modernise its telecommunications system.

The loan, which is to help finance projects to provide 500,000 new lines and modernise existing infrastructure, brings to nearly Ecu330m the funds committed by the EIB for upgrading telecommunications systems in central and eastern Europe. The 15-year loan will finance nearly a tenth of required expenditure. Other loans are expected from the World Bank and the European Bank for Reconstruction and Development.

The telecoms loan accounts for more than half the EIB's lending to the Czech Republic. Loans of a similar size have already been made to Poland, Hungary and Bulgaria. A loan to Slovakia is to be announced later this week, and one to Romania is under consideration.

● AP adds: The EIB yesterday said it would loan $230m to help fund the first stage of a high-capacity, natural-gas line linking Algerian supplies with the Spanish gas network and eventually EC countries.



Dunkel: "I may look peaceful, but some people have come to know that I can be very rough"

David Dodwell talks to Gatt's head on eve of his retirement

Director-general of unfinished business reaches end of the line

EIGHTEEN months ago a draft agreement – called the Dunkel Draft in deference to the role Mr Arthur Dunkel played in crafting it – was drawn up in an attempt to break the deadlock in world trade talks. Today, as Mr Dunkel steps down after 13 years as director-general of the General Agreement on Tariffs and Trade, the Dunkel Draft is still unsigned.

In Geneva yesterday the head of the Geneva-based international trade watchdog was more philosophical than disappointed about retiring before a Uruguay Round accord has been reached: "The political winds were never quite right, never blowing in the same direction for everyone."

As leaders from the Group of Seven industrial nations prepare to meet in Tokyo next week, with differences over the need for trade liberalisation high on the agenda, Mr Dunkel remains optimistic that agreement can be reached: "We have come to a phase of secret diplomacy. There are lots of meetings taking place, and they are based on new ideas."

Concern that deepening recession, in Europe in particular, provides a deteriorating environment for settlement of the Uruguay Round are nevertheless apparent. Mr Dunkel fears the resurgence of the 1930s claim that protection is needed to protect jobs.

"We thought it was part of the common sense of everyone that in an integrated world economy, one of the most important sources of jobs is international trade," he said yesterday. "Governments need to remind protectionists that a tax on imports is a tax on exports."

Recent US demands for management of trade with Japan are a source of less concern: "We know the results of managed trade: just look at Comecon. Are we really going to manage trade when we have such strong evidence that it does not work?"

Mr Dunkel is ready to challenge any criticisms that at certain pivotal moments – such as the negotiating collapses in December last year, or in Brussels in December 1990 – he failed to manipulate negotiators to make the final push that might have prevented breakdown.

"I may look peaceful, but some people have come to know that I can be very rough," he says, recalling secret sessions called with negotiators either at his home in Roussin, north-west of Geneva, or in the back room of an Italian restaurant close to the French border. "In this process there has been a lot of bulldozing, keeping the bar open until two in the morning – even physical boxing."

If the G7 summit is a success, with leading industrial countries agreeing a market opening package of tariff cuts in manufactures and services, Mr Dunkel's successor Mr Peter Sutherland, former EC competition commissioner, will be presiding within days of assuming office over a hectic push in Geneva to broaden the G7 deal to embrace all 111 signatories to the Gatt. If they fail, he faces the potential failure of the Round, and a slide into protectionism and managed trade.

"I spent my youth in a family that went through the Great Depression," Mr Dunkel recalls. "I have no need to read text books to remember what it was like.

"That is what frightens me, because attitudes being voiced today are very similar. The major difference today is that the Gatt exists, and is playing a full roll as a deterrent."

'A last chance' for the Uruguay Round

By David Dodwell

IF 1992 was the year of lost opportunity, then 1993 may be the year of the last chance to seal a trade-liberalising Uruguay Round deal, says Mr Arthur Dunkel, director-general of the General Agreement on Tariffs and Trade.

In the introduction to the annual Gatt Activities Report, published today, Mr Dunkel warns that governments in the industrial world seem to be having difficulty "in comprehending what the word 'competition' really means."

He complains that by espousing protectionist concepts such as trade management and bilateral reciprocity, industrial countries are jeopardising the gains of 45 years of trade liberalising work by the Gatt: "Had Gatt tried to expand world trade through such a philosophy, then the world would now be a very much poorer place," he says.

In a strong but coded assault on recent US demands for managed trade solutions to its trading difficulties with Japan – a subject that will be high on the agenda at the G7 summit – Mr Dunkel says in the Activities Report industrial countries appear to have forgotten what trade really is, and what makes it happen.

Trade, he says, is based on competition, which in turn is based on difference: "Differences in access to raw materials, in wage rates, in labour conditions, in education, in publicly- or privately-funded research and development, in exchange rates, in labour productivity, in investment, in standards of health care and in industrial and commercial structures."

Leaders and powerful lobbies in the US and France in particular have called for such differences to be ironed out in defence of jobs at home.

The recently-liberalising countries of Latin America and eastern and central Europe have had "a disillusioning experience" in dealings with industrial countries, who have hindered market access as fast as liberalising countries have eased access to their own markets.

Tokyo learns art of diplomatic defiance

By Charles Leadbeater in Tokyo

JAPAN is learning to say No to the US, in a new mood of assertiveness which saw trade talks in Tokyo end in stalemate late on Monday.

The question is whether Tokyo can say more than that, and come up with its own proposals to create a framework for further detailed trade talks with the US.

This week's talks foundered on Japan's vehement opposition to targets for cutting its current account surplus, which will be worth about $150bn (£100bn) this year, and opening its markets to imports.

The US wants the surplus cut from about 3.5 per cent of gross national product to between 1 and 2 per cent. It also wants Japan to increase by a third its imports of manufactured goods and has proposed targets in five areas, including government procurement, supercomputers and auto parts. In return the US has pledged it will reduce its federal budget deficit and block protectionist measures to exclude Japanese goods from the US.

In reply the Japanese said in private what they have been saying in public for weeks: they will not agree to numerical targets on the grounds that this would amount to managed trade.

Japan's opposition is unlikely to weaken, with one senior Japanese official acknowledging a growing psychological need to resist US pressure.

Older bureaucrats and business leaders want to test the credibility of the young Clinton administration, believing its resolve to pressure Japan will flag. Younger officials believe it is their task to establish a more equal relationship with the US, in which Japan stands up for itself.

The bureaucrats' approach is echoed in the business community. One top executive with a leading Japanese publishing group sums up the mood: "We should say No because Mr Clinton simply does not know very much about economics." Yet when asked what Japan should do after resisting, he replied: "That is up to the government."

The problem is that Japan's new willingness to say No has not been matched by a capacity to propose alternative approaches. This has been exacerbated by the political turmoil created by the government's defeat in a no-confidence motion two weeks ago.

Getting the Tokyo's hard-nosed bureaucrats to budge will become increasingly difficult in the next few months, until a political leadership emerges after the July 18 general election strong enough to deliver concessions.

At the very least the US administration will have to adjust its expectations of how quickly it will be able to reach a deal, and its hopes of concluding an agreement in time for next week's summit between President Bill Clinton and Mr Kiichi Miyazawa, the prime minister, have been dashed.

Japan's corporate groups are accused of obstruction

By Robert Thomson in Tokyo

JAPAN'S Fair Trade Commission, the anti-monopoly body, has found that the corporate groupings known as "keiretsu" sometimes obstruct competitors and exclude potential partners, including foreign companies, in the glass, car and paper industries.

In examining the so-called vertical keiretsu, which involve links (often cross shareholdings) among manufacturers and their suppliers and distributors, the FTC listed behaviour it said was inappropriate but not necessarily in breach of anti-monopoly regulations.

The keiretsu have been targeted by the US government, which argues the groupings are exclusive and limit business opportunities for foreign companies. There are two types of keiretsu; the horizontal corporate families, such as Mitsubishi and Mitsui, which cover a wide range of industries, and the vertical, which focus on a specific industry.

FTC officials found that the links to sales agents of sheet glass companies, car parts makers, and paper manufacturers had remained almost unchanged over the past five years. Some restrictions were imposed on sales to companies outside the keiretsu and special discounts were offered to keiretsu members.

The FTC findings confirm some US complaints about the closed character of the keiretsu. However, the commission indicated it planned no punitive action against the companies surveyed.

NEWS: THE AMERICAS

Clinton plea to business over budget

By Jurek Martin, US Editor, in Washington

PRESIDENT Bill Clinton, enjoying a boost in his approval ratings after the weekend raid on Iraq, yesterday returned as promised to domestic affairs by exhorting small businessmen to support his budget reduction and healthcare programmes.

In a speech to a conference in Washington he complimented elements in both versions of the budget bill passed by Congress, particularly approving some of the incentives for small business in the House measure but watered down in the Senate.

The budget plan, he said, "is great on deficit reduction. It does invest some money in the future, but it doesn't invest anything like what you would want us to invest if we weren't strung up by the heels by the deficit. And there is no answer to it except to get health costs in line with inflation."

Failure to accomplish this, he added, could "break the country".

He sympathised with small businessmen who were "paying out the ears" for healthcare insurance and invited them to "join the debate" about the right solution. "I think all employees should make some contribution to their health care because if they don't they may get to thinking it's free and over utilisation is one of the problems," he said.

But he disclosed few details of the proposed blueprint being drawn up by the task force under Mrs Hillary Rodham Clinton. This will not be unveiled until after Congress disposes of the budget and possibly may not be made public until September.

A poll conducted by the New York Times and CBS News yesterday confirmed not only general backing for the raid on Iraq but also a lift in the president's own previously sagging approval ratings. The survey was conducted on June 21-24, but just under half of the 1,363 interviewed were questioned a second time after the attack.

The second sample showed 50-43 per cent backing for the way Mr Clinton is handling the presidency compared to a 39-46 per cent rating in the first.

This improvement is typical in the immediate aftermath of a foreign "crisis" and, as Presidents Ford, Carter and Bush found, does not necessarily endure for more than a few weeks. Much smaller improvements were seen in the rating of Mr Clinton's economic management and the general sense of confidence and trust, according to the poll.

Larry Summers has made his mark, writes Michael Prowse

An economist with political nous

IN POLITICS your job is as important as you make it. This, at any rate, appears to be the *modus operandi* of Mr Lawrence Summers, the forceful under-secretary for international affairs at the US treasury.

Mr Summers is only the third-ranking official at the treasury; yet this has not stopped him from speaking out authoritatively on a wide range of issues, some of which would appear to be the responsibility of other departments.

For example, in a series of speeches – most recently to Japanese businessmen in Tokyo – Mr Summers has set out the general principles underlying trade relations between Japan and the US.

Mr David Mulford, who held Mr Summers' job in the Bush administration, tended to focus more narrowly on the financial services sector and left general trade policy to the US trade representative or the commerce secretary, the two top trade officials.

While many appointees of President Bill Clinton are still struggling to find their feet, Mr Summers has set about rapidly carving out a position of influence within the administration.

His stature in part reflects his having served the perfect apprenticeship for his job.

As chief economist at the World Bank for two years up to last November's election, Mr Summers became familiar with nearly all the issues now confronting him, such as economic reform in Russia, policy co-ordination between Group of Seven countries and third world development.


Summers: a flying start in Clinton team

He also had a chance to build important personal relationships with leading economic policy makers in Europe and Japan.

But Mr Summers also brings intellectual gifts to the job. Still technically on leave from Harvard University, Mr Summers has just won an award he long coveted: the John Bates Clark Medal, presented every two years to the "outstanding American economist under the age of 40."

Academics do occasionally get political posts but it is rare for a young economist to drop research for the hurly-burly of Washington politics.

As most members of Mr Clinton's economic team have been fully absorbed with domestic policy – especially the struggle to win congressional support for the deficit-cutting economic package, Mr Summers has had a relatively free hand to mould international policy.

He has been instrumental in shaping a two-pronged global strategy consisting of a "re-invigorated multilateral effort" to strengthen global economic growth and an "export-activist" trade policy designed to open markets and make other countries "bear a greater responsibility for supporting the global trading system."

In both areas Mr Summers has tried to present policy in terms likely to appeal to Washington's Group of Seven partners.

For example, he encouraged his boss, Mr Lloyd Bentsen, to stress that economic co-operation is a "two-way street" in which the US will respect the views of allies.

Viewed from Tokyo, Mr Summers' brand of co-operation looks more like coercion: Tokyo is being pressed hard to adopt a more expansionary fiscal policy and to halve its current account surplus as a fraction of national income.

Mr Summers has been active on many other fronts. He is one of the administration's strongest proponents of more generous US and international support for Russian economic reforms.

Soon after arriving at the treasury he began to put pressure on the International Monetary Fund to agree new more flexible rules for lending to formerly communist countries.

The so-called "Systemic Transformation Facility" was duly announced in April and the IMF announced the first tranche of a \$3bn loan to Russia this week.

Mr Summers is also showing greater sensitivity to the needs of developing countries than his Republican predecessors. He has signalled that the US would join other industrialised countries in offering more generous debt relief to low-income countries in sub-Saharan Africa and elsewhere.

He is putting his inside knowledge of flaws in World Bank operational procedures to good use. He has pressed the World Bank and other development institutions to sharpen their focus on poverty relief and alter the way they conduct business by placing less emphasis on the approval of loans and more on the supervision of projects.

US space station wins a reprieve

By George Graham in Washington

THE US space station now appears likely to survive after efforts to cut off money for the project failed in the House of Representatives late on Monday night.

Congressional opponents of the space station failed last week by a single vote to remove framework authorisation for the project, and had hoped that Monday's vote on funding could turn their way.

In the end, intensive lobbying by the White House, which has thrown its weight behind the redesigned station, produced a 220-196 margin of victory in the funding vote, with half a dozen members switching to support the station.

The new design for the space station, drafted in three months by a National Aeronautics and Space Administration team, is expected to cost \$2.1bn (£1.4bn) a year over the next five years, with a further \$5.5bn required to bring it up to permanent occupancy by the end of the century.

The two House votes have been the closest shaves so far for the costly space station project, on which \$9bn has already been spent. The Senate is expected to look more favourably on the space station, but Congress as a whole has taken a new and more sceptical look at many expensive projects of this sort.

Canadian wages under pressure

By Bernard Simon in Toronto

RESIDENTS of Toronto will be unable to pay their municipal taxes or apply for marriage licences on three Fridays this summer – all in the name of holding down the wage bill of Canada's biggest city.

In what is becoming a countrywide pattern of fiscal restraint, Toronto will close its municipal offices and halt all but essential services on these days, forcing about 9,000 municipal workers to take three days' unpaid leave.

The recession has forced many Canadian businesses either to freeze or roll back wages. But the squeeze is gradually extending to the public sector, despite the presence of powerful unions.

Statistics Canada reported that wage rises in April averaged 0.2 per cent a year. The small rise was largely due to a wage freeze on federal civil servants. Ontario's provincial government is in the process of negotiating a three-year freeze with unions representing over 900,000 public-sector workers.

The diminishing upward pressure on wages is one reason for economists' optimism that inflation in Canada will remain dormant for at least the next year or two. The consumer price index edged up by 1.8 per cent in the year to April, and is not expected to climb more than 2-3 per cent this year or in 1994.

Public office-holders are also under intense scrutiny to limit pay increases. Leaders of Canada's two main political parties have expressed displeasure over a vote by the Senate, the non-elected upper house, to give each member an extra C\$6,000 (US\$4,687) a year in travel and accommodation allowances.

Security the key to Belize poll

By Canute James in Kingston

BELIZE holds a general election today with the ruling party trying to play down concerns that the country's security is threatened by political uncertainty in neighbouring Guatemala and a planned pull-out by British forces.

The election was called by the prime minister, Mr George Price, 15 months before it was constitutionally due. The election follows the removal from office of Guatemalan president Mr Jorge Serrano, with whom Mr Price had reached an accord – yet to be ratified – ending the 130-year-old Guatemalan claim on Belize.

In a bid to calm fears over Guatemala's attitude to the agreement, Mr Antonio Castellanos, ambassador to Belize, issued a statement at the weekend saying that "the new Guatemalan government will respect and honour all international agreements."

Mr Price's People's United Party is expected to retain a majority in the assembly, but to be closely challenged by main opposition United Democratic Party led by Mr Manuel Esquivel. The opposition accuses the government of having no plans to defend the country following last month's British decision to withdraw a 1,400-strong garrison.

Argentina in energy deal

A CONSORTIUM of three electric utilities from the UK and the US and two Argentine companies has won a 95-year concession to own and operate Argentina's high voltage transmission system, writes David Lascelles, Resources Editor.

Participants in the \$230m (£153.3m) deal include the UK's National Grid Company and Energy of Arkansas and Duke Power of the US.

NEWS: UK

Fragile state of recovery underlined by small company collapses

Business failures rise sharply

By Peter Marsh, Economics Correspondent

A SURGE in company collapses in Scotland and among small traders throughout the country has pushed business failures to a new record, according to official figures released yesterday.

In spite of signs of recovery in the UK economy, the poor figures have underlined the fragile state of British industry.

Taking in England, Wales and Scotland, business collapses totalled 17,005 in the second quarter of this year, Dun and Bradstreet, a business information company, said. This is the highest three monthly figure since the company started collecting data in 1980. The collapses are mainly at the level of small businesses, which are going under at the rate of nearly 1,000 a week throughout the country.

The overall second quarter figure was inflated largely because Scottish business failures rose 35 per cent between the first and second quarters, from 2,795 to 3,770.

In England and Wales, the upward trend is much less marked, though business failures still rose 5 per cent from 12,648 in the first quarter to 13,235 in the second quarter. In the fourth quarter of last year the figure was 13,397.

The year-on-year rate of collapses is coming down in London, and has increased only marginally south-east England, while Wales has seen a big fall.

This supports notions that the regions which were first into the recession are ahead of others in coming out of it.

In the first six months, total failures came to 32,448, from 62,767 in the whole of last year. Between January and March this year 15,443 businesses went under.

Throughout the country, big companies appear to be relatively resilient as they attempt to rebuild sales after the recession. This is shown by 5,430 limited companies being liquidated in the second quarter, a muted 2 per cent rise on the 5,297 forced out of business in the first three months.

Bankruptcies of small traders went up 14 per cent from 10,146 to 11,575 over the same period.

Taking in the whole of the first half of this year, 25,883 businesses collapsed in England and Wales, little changed on the 25,683 in the comparable time last year.

The figures were much more gloomy in the case of Scotland, where business failures rose 30 per cent from 5,039 to 6,565. Scotland was one of the last regions to go into the recession which for the UK as a whole began around mid-1990.

In the first half London recorded 3,381 business failures, a decrease of 2 per cent in the same period in 1992. The comparable figure for Wales was 1,037 , a drop of 15 per cent and the biggest year-on-year decrease in collapses of all the regions.

Top managers lead list of company fraudsters

By Andrew Jack

CORPORATE FRAUD has risen sharply to more than £571m in the first four months of 1993, according to figures compiled by KPMG Peat Marwick, the accountancy firm.

Their "fraud barometer", which catalogues press reports of UK criminal fraud charges exceeding £100,000, shows there have been 355 cases involving a total of £2.2bn since 1987.

Nearly 60 per cent of fraud since last year has been committed by top management, 13 per cent by middle management and 22 per cent by employees.

In the first third of this year, the figure of £571m included £489m in charges connected to the Bank of Credit and Commerce International. The total last year was £671m.

Of the other 13 cases detected in 1993, nearly half were brought against lawyers or accountants and the average charge was £6.3m.

Over the past seven years, the most common victims have been investors, defrauded of £1.1m in 102 cases. The commercial sector has lost £445m, banking and finance £394m and government – including tax fraud – £220m.

In the same period, more than one third of fraudsters charged were aged between 41 and 50, and a further 30 per cent were aged between 31 and 40.

Mr Ian Huntingdon, a partner with KPMG, said that corporate reorganisations and redundancies in the past few years had threatened the loyalty of employees, removed middle layers of management, jeopardised many controls and increased the risk of fraud.

Mr Michael Fowle, head of the firm's audit practice, said auditors could not be expected to detect all fraud, especially that which involved collusion by management.

He warned that greater fraud detection would bring "horrendous cost implications".

Wimbledon fraud costs businessman £50,000

Tennis authorities at the Wimbledon tournament said a German executive had spent £50,000 on 35 invalid seats for the centre court at the All England Club.

The fraud was the worst black market ticket offence detected so far at this year's championships, the club said, although the number of tickets finding their way on to the black market was down on previous years.

In 1990 Wimbledon introduced new conditions for ticket sales which made tickets invalid if not sold through licensed agencies. International visitors to the tournament are often the victims of touts, especially German, US, Japanese and French tennis fans.

On court, surprise loser in the womens' quarter finals was Gabriella Sabatini of Argentina (above), beaten 6-4 6-3 by Jana Novotna. Czech Helena Sukova lost 6-1 6-4 to Spaniard Conchita Martinez.

Steffi Graf and Martina Navratilova won their respective matches against Jennifer Capriati of the US and Belarussian Natalia Zvereva

Vigilante tactics 'forced on shops'

By John Willman, Public Policy Editor

BRITISH shopkeepers have been forced to adopt vigilante tactics to stem a rising tide of property crime, according to Mr Stanley Kalms, chairman of the Dixons Group, the UK's largest electrical retailing chain.

Mr Kalms told a conference held yesterday by the Social Market Foundation that Dixons had turned its stores into "heavily built fortresses" and employed a private security army to fend off thefts, hijackings and ram-raider attacks which had cost the group £20m last year.

He said Dixons had taken action to deal with squatters who moved into empty stores and used them to sell stolen goods. Since the law appeared to have no answer to shop squatting, "We send the heavies in early in the morning and turf them out," he said.

The group's losses would have been much higher but for the preventive measures taken which blocked eight out of nine attempted break-ins. Yet Dixons alone recorded more than 10,000 incidents of theft, violence and fraud last year. "It's a war out there that we're fighting," he said.

Mr Kalms said the police had increasingly become "only a data-collecting agency". Although resources had risen, the increase did not match the explosion in crime. "The police are no longer a force for detection and prosecution of crime against property."

With retailers building their own security forces, it was inevitable that they would group together. Although it would be opposed by the police, they should be given "some sort of semi-official status", Mr Kalms said. "To avoid emotive discussion, we need to legitimise the meaning of vigilantism."

Mr Kalms said law-makers had failed to react quickly to new types of crime such as ram-raiding and the use of car-boot sales to dispose of stolen property. He also attacked local authorities that refuse to co-operate with crime prevention measures such as security grilles which they alleged spoilt the ambience of town centres.

Leading Lloyd's agencies may quit

By Richard Lapper

SUCCESSFUL Lloyd's agencies may be about to quit the insurance market in the wake of record losses, Chatset, the research company which monitors Lloyd's, has warned.

"Names must watch the situation closely to ensure that Lloyd's does not become an agglomeration of the second-rank agencies, with the leading agencies splitting themselves off and becoming autonomous insurance companies," said Chatset yesterday, presenting its review of the market's performance in 1990.

Lloyd's reported a loss of £2.91bn for 1990 last week, the last year for which it has released figures. "There are signs that Lloyd's may be breaking up through successful agencies declining to support a market which has notched up substantial losses through bad management and poor underwriting," said the report.

Last month five Lloyd's agencies put members' agents "on notice" that they might not be prepared to continue managing syndicates in 1994.

The company's review of the 1990 results shows a wide variation in the performance of the syndicates trading at the market.

While five marine syndicates reported profits of more than 10 per cent of their stamp capacity – the premium they are allowed to underwrite according to Lloyd's rules – 18 marine syndicates reported losses of more than 100 per cent of their stamp capacity.

● In another sign of the ripples that the record losses at Lloyd's are sending through the art world, Christie's, the fine-art auctioneers, announced that it had joined Coutts bank to provide a rescue package for Lloyd's Names.

Under the scheme, Names, the wealthy individuals whose capital underwrites the insurance business, can raise a bank guarantee at Coutts for up to 40 per cent of the value of their works of art.

The move comes as art dealers report a surge of inquiries from Names seeking to sell art and other heirlooms to meet cash demands for record losses.

UK may veto work councils

By David Owen

THE GOVERNMENT will use Britain's veto to block EC plans to introduce mandatory works councils in large trans-European companies, Mr David Hunt, employment secretary, warned yesterday.

Arguing that the introduction of such bodies would "greatly damage" Europe's competitiveness, Mr Hunt told MPs that Britain opposed forcing employers to handle pay and conditions negotiations through works councils – committees of managers and workers' representative.

He called for all EC proposals to be tested on the effect they had on competitiveness.

Britain last month insisted that plans to set up the councils should not be discussed at a meeting of labour and social affairs ministers, and is hoping its threatened veto will prevent moves to press ahead with the proposals during the Belgian presidency beginning in July.

While Britain can block the directive under existing EC procedures, once the Maastricht treaty has been ratified and the social protocol comes into effect, the other 11 countries can introduce it by majority voting. Even though the UK has opted out of the social chapter, British companies could still be affected by the plans, since many have operations in continental Europe large enough to require them to introduce the new procedures for their operations outside Britain.

Mr Hunt also announced Britain would join a European programme to help regions affected by the decline in the defence industry. This would involve a some £15m channeled through the European Social Fund and the European Regional Development Fund.

Nuclear operator blames government for job losses

By Chris Tighe

The government is committed to retaining the option of nuclear power for Britain, provided that the industry can operate economically and meet rigorous standards of safety and environmental protection, according to Mr Tim Eggar, energy minister.

Speaking at a London conference organised by the UK nuclear power industry, Mr Eggar stressed he had not made any decision on the terms of reference for the nuclear review which the government plans later this year. The nuclear power lobby has urged Mr Eggar to order a wide-ranging review so nuclear power is not judged solely on its high costs.

Europe will witness a renewed interest in nuclear power by the end of this decade, according to Mr Rémy Carle, the chairman of the World Association of Nuclear Operators. Addressing the same conference, Mr Carle, who is a deputy general manager of Electricité de France, said that many reactors will need to be replaced between 2000 and 2010, and work will have to begin in the 1990s. France was likely to initiate several new reactors before the end of the century.

WIDESPREAD job losses were yesterday announced at the Sellafield nuclear power station by British Nuclear Fuels, the state-owned operators.

BNF blamed the redundancies on the government's decision to hold more public consultations over £2.8bn Thorp reprocessing plant at the site in north-west England.

The company also announced plans to make a further 1,500 employees redundant at its headquarters in Risley, Cheshire, over the next two years.

The company, which estimates the delay in commissioning the Thermal Oxide Reprocessing Plant is costing it £2.4m a week, said the 1,500 job cuts, amounting to 10 per cent of its employees, were necessary to make it more competitive for the future.

The cost so far to BNF of the delay in live commissioning of Thorp, which had been scheduled for January 1993, is estimated at nearly £50m. That figure is certain to rise by tens of millions of pounds, following Monday's Commons announcement of more public consultation, delaying a final decision on Thorp's future until late autumn.

BNF has already forecast its 1992-3 pre-tax profit, to be announced next month, will be about £60m down on the £161m 1991/2 figure.

The company, which has a £9bn order book for Thorp, attacked the Department of the Environment's decision yesterday. "These further bureaucratic delays by DoE and HMIP Policy Branch could have been avoided with good management," it said. The delay, it warned, would deter other industrialists from investment in the UK, in case regulatory bodies later forced closure of plant they deemed unnecessary.

The 1,700 to lose their jobs at Sellafield are mechanical and electrical engineers and skilled manual workers. They, and 600 others laid off early this year, would have worked *on Thorp for its first year of operation*. One thousand of the 1,700 will go by Friday week.

"There comes a point where there's no work to do; we're not a charity, we don't just pay people to do nothing," said Mr David Bonser, director of BNF's Thorp division.

The latest Sellafield job losses are a further blow to isolated West Cumbria, which is struggling to diversify *its economy*.

Local unemployment, currently 10.2 per cent, is expected by Copeland borough council to touch 20 per cent this year because of the rundown of Thorp's construction and the start of cost-cutting job shedding in Magnox reprocessing at Sellafield.

Donations row bemuses tycoons in Hong Kong

By Simon Holberton in Hong Kong

THE MAIN reaction in Hong Kong to the recent fuss in *Britain over business donations* to the Conservative party has been one of bemusement.

This stems from two factors. First, the sums involved are, by the colony's standards, trivial. The other factor stems from its status: Hong Kong is a British colony and most of its population are British subjects.

Mr Li Ka-Shing's alleged £100,000 *donation to the Tory* party pales into insignificance compared with the £17m he has donated to build a university in his home town of Shantou, on the south China coast.

Many of Hong Kong's leading businessmen, including Mr Li, are British citizens, or, like Mr T.T. Tsui – who numbers *Mr Michael Heseltine (trade* and industry secretary), Mr Norman Lamont (former chancellor) and Mr David Mellor (former heritage minister) among his friends – holders of British Dependent Territories passports.

Being Chinese is not, even these days, wholly synonymous with being anti-British, says Mr David Tang, an Anglophile businessman with impeccable mainland connections. "There are many of us who have made a lot of money in Hong Kong and believe that *this has not been unconnected* with the stable government the UK has afforded us. That's why I give money to the Conservative party."

Mr Tang also points out that most of the money flowing to the Tories from Hong Kong Chinese businessmen results from their observance of "face". If a friend asks for money the natural reaction is to give it, he says. "My grandfather gave £100,000 to the RAF museum at Hendon. Now, he would not have known what a Spitfire looked like if he fell over one. But Sir Jack Cater [former Hong Kong chief secretary] asked him for a donation because he had a friend who ran the museum. So he gave."

Fines double in effort to curb illegal parking

By Richard Tomkins, *Transport Correspondent*

TRAFFIC LAWS that start taking effect tomorrow will confront London motorists with the toughest clampdown on illegal parking since the first traffic wardens began pounding the beat in 1960.

The £30 penalty for illegal parking will be doubled to £60 *in central London; at least* 1,000 more traffic wardens will join the 1,500 already on patrol and computer technology will be deployed to crack down on persistent offenders.

The regime is being introduced under the Road Traffic Act 1991, which gives the government powers to transfer responsibility for parking enforcement from police to local authorities. It is largely modelled on schemes introduced over the past two years in US cities such as Chicago.

The law permitting the London scheme comes into effect at midnight tonight, but the transfer of responsibility will be phased in area by area and will take a year to complete.

Under the existing system, parking restrictions in the capital are enforced by about 1,500 traffic wardens employed by the Metropolitan Police – although some local authorities use *their own wardens to* patrol parking meters and residents' parking spaces.

PARKING FINES	
City	£
Tokyo	1,264 (max)
London	30-60
Amsterdam	43
Paris	32
New York	17-37
Hong Kong	17
Toronto	5-21

Source: FT bureaux

Under the new system, all the Metropolitan Police wardens will concentrate on patrolling the capital's main roads, soon to be redesignated "red routes" with much stricter curbs on parking.

The rest of the capital's roads will be patrolled by local authorities, which will introduce a new force of at least 1,000 parking attendants. Equipped with hand-held computers enabling them to check the registrations of vehicles, they will then summon car clamping or removal squads to deal with persistent offenders.

Proceeds from the fines will be used to finance the local authorities' enforcement activities. Any surpluses can be used to provide off-street parking or to improve public transport or roads.

Britain in brief

Spending on health R&D to be altered

The health department has revealed plans to switch most of the National Health Service's spending on research and development, currently £316m a year, to the assessment of new drugs, equipment and *other treatments*.

The strategy for creating an "evaluative culture" in the NHS includes closer links with industry and the publication of guidelines on the best health technologies.

The plans received a mixed response from the medical technology industries.

Mr David MacKenzie of the British Healthcare Industries Association, which represents medical equipment manufacturers, said: "Britain has a trade surplus in medical equipment, but this is falling. What we really need is money to develop new equipment."

Labour attacks coal pit 'fraud'

The government should come clean over coal and admit the rescue package it unveiled in March had been exposed as a "fraud", Mr John Smith told MPs as he clashed with prime minister John Major over continuing pit closures.

Anticipating next week's Commons debate in which *Labour hopes to rekindle* public interest in the industry's future, the Labour leader said that three of the 12 pits the government led MPs to believe would be reprieved now faced closure.

Mr Major said some of the threatened pits had severe geological problems resulting in excessively high costs. In two cases, the miners themselves had voted to close pits – in one case immediately, in another when the existing face is exhausted.

Row looms on City security

The Corporation of London is digging in for a long running lobbying campaign in defence of its controversial proposals for tough new anti-terrorist measures in the city of London.

The proposals, which include a ban on non-essential traffic in the city centre, the introduction of vehicle check points, and extra police surveillance, *have been greeted* with discreet dismay by some Whitehall officials. They fear that introducing Belfast-style measures in the wake of the Bishopsgate bombing would present the IRA with a propaganda coup.

But Mr Michael Cassidy, chairman of the corporation's policy and resources committee, has insisted *the* corporation was intending to press ahead with the proposals, and had been meeting in recent days with officials from the Department of Transport and other government departments *to smooth out* "some misunderstandings".

MPs urge aid for Africa

An all-party group of MPs has been launched to campaign for agreement among the Group of Seven industrialised nations on new measures to help reduce African debt.

It is calling for the Tokyo G7 summit to approve a significant write-off of Africa's debt, as a first step in a longer-term debt relief package. In advance of that summit the MPs are seeking a meeting with Mr John Major, who in 1990 as chancellor launched the Trinidad terms initiative.

Tugs urged for oil tankers

A network of strategically located sea-going salvage tugs capable of taking in tow crippled oil tankers and bulk carriers *would cost the* government £6m a year to maintain, a salvage expert told the inquiry into the Braer oil spillage off Shetland.

Mr Mike Lacey, a marine consultant, said a total of four powerful tugs should be stationed off the Isle of Wight, the river Tees, between the Shetlands and the Orkneys and between Anglesey and the Isle of Man.

He said the cost per tug would be "in the region of £1.5m a year". He argued that this was not an excessive amount "when one considers *the costs of damage or* clean-up following an oil spill". The hearing continues.

Rig operator faces action

The owner of the Ocean Odyssey North Sea, and Arco British, the operator, are to be prosecuted following a fire and explosion five years ago.

Odeco faces three charges under the Health and Safety at Work Act, while Arco faces one charge. Both are expected to contest the charges.

New register of directors

Companies House, the government's corporate information agency, is to launch a new computerised register of company directors.

The public will from Thursday be able to gain access to details of directors on all 1m limited liability companies.

Strike threat at GEC plants

Workers at the six Scottish plants of GEC Marconi Avionics are to stage a one-day strike on Thursday in protest at a plan by the management to introduce performance related pay. MSF, the industry and services union, which conducted the ballot among 1,700 of the factories 3,000 employees, said the action involved hourly paid workers and staff up to junior management level.

Shake-up for Scots tourism

The government is to re-organise the way it helps Scotland's tourist industry, doing away with a structure which critics say is fragmented and ineffective. The Scottish Tourist Board will continue to be responsible for marketing Scotland as a tourist destination. But the tourist board will no longer give financial assistance and advice to tourism businesses. This will be the responsibility of Scottish Enterprise and Highlands and Islands Enterprise, the two *umbrella development bodies* which operate through a network of enterprise companies.

Tyne clean-up near completion

One of Britain's most ambitious environmental clean-ups, *schemes*, the £150m transformation clean-up of the river Tyne urban reaches from open sewer to England's best salmon river, is about to be completed.

The 20-year civil engineering project – first discussed early this century – ends the discharge of untreated sewage and industrial effluent from 250 outfalls into the river.

Tim Dickson and Catherine Milton experience the pleasure and pain of outdoor training courses

Dispelling the macho myth

Overgrown boy scouts who derive pleasure from other people's pain? Or underrated professionals who help companies achieve their business goals?

Earlier this year a British television documentary on outdoor management trainers lent weight to the more sadistic view. Using vivid footage from six days of apparent purgatory in Scotland, the programme included images of acute executive suffering, even humiliation. The man who ran the course complained that he had been unfairly represented, but other "outdoor" specialists worried that they might be tarred with the same brush.

Chris Cotton, a director of Truro-based Training In Action, was one of them. He therefore invited me to join 10 personnel, training and other middle to senior managers on one of his quarterly "appreciation" courses run from a converted 16th century thatched barn and roundhouse on the edge of Dartmoor. The thinking behind these 36-hour "experiences" is to let participants judge the value of the outdoor training approach for themselves.

The core of our programme, which ran from late on a Tuesday afternoon to early Thursday morning, comprised three well-conceived and entertaining outdoor exercises, involving an emergency rescue, raft and bridge building to tight deadlines, and a night-time search – with compasses and flashlights – for a long-lost "glass chalice".

As Cotton emphasised, the outdoors is only a vehicle for the overall process of learning about communication, team roles and development and the management of change at work (topics covered on our course). Training in Action uses the so-called experimental learning approach which incorporates review sessions – in which groups are encouraged to analyse the process by which the task was (or was not) achieved – and teaching modules. As well as muddy boots, participants therefore take away some understanding of concepts like Johari Windows (a framework for improving self-perception and the perception of others) and snippets of the work of management gurus such as Meredith Belbin.

Most "appreciation course" members endorsed Cotton's claim that outdoor training can be "a memorable experience" which is sufficiently different from a manager's everyday work that it becomes possible "to concentrate on the management process rather than getting bogged down in the task itself".

Kevin Murphy, training manager of HMS Personnel Services (part of BET), says it is always an advantage not to have "the usual clutter of departmental restrictions or traditional limitations" on a course.

"The outdoors can also offer a much safer environment for people to fail; in the workplace the perception is that reputations, even careers, can be at stake. Making it safe to fail encourages people to take chances and try out new ideas, methods etc – this is when the greatest benefits can be derived."

'The outdoors can offer a safer environment for people to fail. In the workplace the perception is that careers can be at stake'

Lesley Dayson, training manager of computer distributors Front Line Distribution, was not alone in arriving on Dartmoor "with the impression that it was all about having a good time". But the experience changed her opinion.

Training in Action scored high marks – particularly from the five women on the course – for disavowing the "macho" approach. "It is my belief that participants should not be forced into situations that cause serious physical or mental stress, as this is often counterproductive," says the development trainer of a multinational company.

That point was illustrated when one hitherto intrepid member of our team suddenly felt claustrophobic inside a cave, and was quickly accompanied back to base.

"Safety conscious", "never confrontational" and "possessed of a strong vision" were other tributes paid to Cotton and his colleague Richard Jones. "The course was enjoyable, not physical and put greater emphasis on brain power than on physical activity," comments Lawrence Mitchell, senior personnel manager at the Royal Bank of Scotland.

Playing his part: a local farmer lends authenticity to the outdoor 'experiences'

Simon Davey, finance director of GMTV, cites the significance of what he called the "extra touches" – notably several "bit parts" in the three exercises played by a neighbouring farmer. "I have been on courses which were unrealistic in this regard and simply led to frustration and exhaustion," he says.

The acid test for Training in Action, though, is whether flattering words will ultimately be matched with corporate training budget deeds. Most of the participants said that they would happily send junior or middle managers on a course – even board members in one case – but that money, senior colleagues and established consultancy arrangements were among the obstacles. "I'd like to ... but it's a big sell," is how the management development manager of a leading retailer sums it up.

Cotton says training managers often share his convictions, but that "a problem is persuading senior managers that they are not going to be keel hauled in some out-of-the-way place". Two months after the "appreciation" event he has no firm bookings but hopes that three or four of the companies will consider signing up in the autumn.

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Training in Action, 5 The Avenue, Truro, Cornwall TR1 1HT. Tel: 0872-78358.

Thrown in at the deep end

There were three of us, up to our waists in a swamp – and blindfolded.

The engineer, whose trousers I was clutching by the waistband, was describing the muddy horrors he could feel ahead and I was doing my best to warn the personnel assistant, who was clinging to the back of my swimming costume.

This apparently showed the importance of communication.

The marsh is the bit most people who complete a Raleigh International (formerly Operation Raleigh) selection course remember best, but it was not the trek through the mud that defeated me. I was beaten by 10 poles lying on the ground, of which more later.

Raleigh's demanding selection weekend was designed to test young people to see if they are ready to be sent to the developing world to work on community projects such as building bridges and clearing rivers. It is now aggressively marketing the scheme to employers as a management development product.

The initiative reflects the pressure on charities whose rules permit them to raise money by offering their services commercially.

Raleigh now has a respectably long list of sponsors, an increasing number of which encourage their junior employees (aged 17 to 25) to apply. They then sponsor those picked to go on the 10-week adventures.

Organisations including TGI Friday's, the US restaurant chain owned in the UK by Whitbread, and British Rail, are prepared to provide £3,950 for each successful candidate to become a "venturer".

The fortunate few join teams of other young people who have applied off their own backs. Raleigh also funds places for young offenders and socially and physically disadvantaged people.

Raleigh is developing its management products. The organisation recently appointed Sue Wilkins, formerly group training and development manager at bookmakers William Hill.

The charity is also setting up an overseas course for managers with Ashridge Management College, and offers customised outdoor staff development courses in the UK.

When I arrived for my selection weekend, probably not even averagely fit, in lipstick and high-heels, the Raleigh staff smothered smiles. "It will be fun picking on you tomorrow," one said at the pub in East Grinstead, East Sussex, where we met.

I was already nervous. Candidates on selection weekends have been injured and the expeditions themselves involve risks. Two venturers and one staff member have died, all in freak accidents, the charity says.

After last orders it was off to the candidates' quarters where, jammed between a snoring signalman and an inflatable dinghy, I slept.

At 9am sharp we started 30 hours of non-stop problem-solving which tested logic, physics, stamina and temper.

This included skinning a frozen rabbit, hiking through the darkness to rescue an "injured" person who had to be carried back on a stretcher, answering personal questions and giving three-minute speeches.

In the middle of all this were the judges, both hectoring and helpful. Scurrying around making notes in little blue books, they laughed at our suffering and chose all the wrong moments to remind us to "keep smiling" or to ask: "So, why Raleigh?"

Much went wrong. Our bridge broke, our raft sank, our egg catapult went 10 yards instead of 70, our bivouac collapsed, we didn't finish building the Lego house and the porridge was burnt and spilt. Everyone got soaked from head to foot.

None of this fazed me. I was beaten by the 10 poles, lying parallel on the ground.

On Sunday morning, stupid with cold and wet, we were told to make five crosses, each of which could only be created by one pole skipping two others to land on a third.

The other team members failed too. We were firmly ticked off and made to do 10 star jumps: "It does happen on expeditions you know. You are cold and you are wet and you can't just give up and let someone else do it," the judge said.

Despite the disasters and the misery, I could understand why employers see them as a good management tool.

The value of team work and planning was spelled out: the rewards and difficulties of giving and taking help, of accepting weaknesses and using strengths with confidence.

Alan Percox, BR personnel director for production services, believes it is leadership skills which show the biggest improvement. Staff are willing to take on responsibility and need less support.

Percox says the scheme makes solid financial sense: "For about £2,000 we are saved 12 to 18 months' formal training which would probably cost up to £6,000."

CM

A boost for word power

A technique used by many of the world's largest companies to help executives write simple, informative reports and memos is now available in the UK.

"Information mapping" is based on research carried out at Harvard and Columbia Universities. It uses principles of information analysis and management which are instinctive to naturally fluent writers, but which can be learned.

Examples are:

- The use of "bullet points", or short, clear statements taken from the main text, to ram home the essential elements of an argument.
- Ways of splitting dense text into fact-rich chunks which can be easily assimilated.

Obvious enough, perhaps, but anyone who has struggled to comprehend a detailed technical report will understand the importance of helping the message pass efficiently from writer to reader.

Information mapping's arrival in the UK is the result of an agreement between the Danish company Information Mapping Europe (IME) and TMS Computer Authors, a small Godalming, Surrey-based organisation specialising in documentation and training. With a capital injection of £450,000 from the 3i group, last year it turned over £3.5m.

Jean Hilder, a director of Computer Authors, points out that managers read on average 1m words a week and forget 80 per cent of what they have learned within a month.

Companies that have used information mapping report significant benefits: a 38 per cent increase in the use of documentation by its recipients, 30 per cent decrease in reading time and 55 per cent fewer errors. Among IME's clients are AT&T, Digital Equipment, Dow Chemical, IBM and Sun Life of Canada.

Computer Authors is planning public seminars on information mapping at £750 plus VAT per person or seminars for up to 15 people at £5,000 plus VAT.

Alan Cane

PEOPLE

Edelman fills gap at Storehouse

Keith Edelman (right) is a devotee of bananas and is all in favour of informality. Unlike his predecessor, however, he intends neither to eat the fruit in meetings nor wear cycling shorts to the office.

The managing director of Carlton Communications, who has been headhunted to replace David Dworkin as chief executive of Storehouse, is "a very normal, straightforward, calm and collected individual with his feet planted firmly on the ground", according to chairman Ian Hay Davison.

Dworkin, who had succeeded in turning around BHS and took over as chief executive of the group last May, resigned abruptly in February to run US department store Cater Hawley Hale. His departure greatly angered Storehouse.

With bonuses for his BHS performance, he collected a total of £3.3m in his last year. Edelman's pay, by contrast, will be "in accordance with English market norms; we will not be making headlines on that front", according to Hay Davison. He will be on 24 months' notice, 12 on his side.

The company employed headhunters to search both sides of the Atlantic, quickly discovering that it was not looking directly in the women's wear retailing sector because "too few candidates had in-depth management skills" in Hay Davison's view.

Meanwhile Edelman is keen to stress his departure is quite unconnected with any friction at Carlton or any falling out with chairman Michael Green. "Michael and I get on very well; I am afraid there is no story there." However, he had been managing director for just two years.

Edelman, who is only 42, says he enjoys retailing more than anything else he has done because of the pace – referring to his spell as chairman of Texas Homecare which had just been acquired by Ladbroke when he took charge.

Describing himself as "financially oriented" but not an accountant, previous jobs included a spell as financial controller of the UK, Irish and Nordic businesses of Bank of America. He then went to Grand Met, where he was finance director of Express Dairies before moving to Ladbroke.

While the onerous task of righting BHS, of which Edelman will also be chief executive, is largely complete and the turnaround at Mothercare, where Ann Iverson is in charge, is in train, the new boss, who arrives in August, will not be short of things to do. "The management is thin, tightly stretched and badly in need of pulling together," says the chairman, referring to the gap at the top left by Dworkin's hasty exit.

And as to the inevitable question as to whether he is related to Asher Edelman, the US arbitrageur who stalked Storehouse during 1989, he replies: "Not that I know of but I have always wanted to meet him."

Non-executive appointments

- **David Kendall**, chairman of Bunzl, at SOUTH WALES ELECTRICITY.
- **Sir John Wheeler**, newly appointed minister of state for Northern Ireland, has resigned from HUNTERPRINT.
- **Derek Edwards**, a former director of RTZ, as chairman of MARLING INDUSTRIES.
- **Sir David Walker**, deputy chairman of Lloyds Bank, rejoins the board of NATIONAL POWER; he had been a director in 1990. Sir **Philip Wilkinson**, formerly deputy chairman of National Westminster Bank, steps down at the end of July.
- **Lord Lane of Horsell**, deputy chairman of NUFFIELD HOSPITALS, succeeds Harry Axton, who is retiring, as non-executive chairman.
- **Andrew Noble** as chairman of LIVERPOOL VICTORIA FRIENDLY SOCIETY in succession to Ken Wilkinson.
- **Alvin Glick** is resigning from HAMMERSON.
- **James Henderson** at UDO Holdings.
- **Desmond Cameron** at BRAZILIAN INVESTMENT TRUST.
- **Robert Burlton** at the CO-OPERATIVE BANK.
- **Sir Peter Masefield**, former md of Bristol Aircraft, at AIR BRISTOL.

Pilkington posting

Pilkington, the glass products group whose fortunes have fluctuated in North America, is sending main board member Peter Grunwell (right) to Toledo, Ohio, where he will take charge of both American continents, with the purpose of "putting him closer to his markets", according to a spokesman yesterday. It is the first time Pilkington has based a plc director overseas full-time.

The company denies the move is directly connected with its problems at Toledo-based Libbey-Owens-Ford (Lof) where chief executive Ronald Skeddle and two other directors were fired last month after allegedly giving data-processing contracts to a company they controlled jointly with an Ohio University business professor. "The timing is a coincidence. Grunwell's move is part of a reorganisation of responsibilities of existing board members which we have been considering for some time."

Grunwell, 56, has been at Pilkington since 1961. He worked his way up on the finance side, rising to the position of finance director. In 1990 he then moved to covering South America, New Zealand, Australia and the Far East.

The latter three geographical regions will now come under Glen Nightingale.

Since the departure of Skeddle, who was not on Pilkington's main board, Lof chairman Trevor Jones had been running the operation, but the company is now searching for a chief executive officer. Jones will report to Grunwell.

As a big supplier to General Motors and others, the North American operation, which represents 31 per cent of group turnover, is highly dependent on the automotive industry. However it claims to have seen better results in the first three months of this year.

- **William Potter**, group director research and development at LONDON INTERNATIONAL GROUP, has been appointed to the board as scientific affairs director.
- **Robert Goddard**, regional director, Asia Pacific, of Fosroc Construction and Mining Chemicals, has been appointed chief executive of BURMAH CASTROL FUELS group.
- **Tom Grievson**, managing director of the defence division at HUNTING, has been appointed to the board.
- **Jyoti Munsiff**, senior legal adviser in Shell International Petroleum Company, has been appointed company secretary at SHELL TRANSPORT AND TRADING COMPANY from the start of August, in succession to John Cunliffe.
- **Wayne Denton**, director and general manager-Europe at SECURICOR OMEGA EXPRESS, has been made managing director of its European division, Network Europe, and appointed to the board of Securicor Parcels.
- **David Bronczek** has been appointed by FEDERAL EXPRESS as senior vice president for Europe, Africa and Mediterranean.
- **Barry Holmes** has been appointed marketing director and Iain Ferguson finance director of ARLINGTON SECURITIES, the business parks division of British Aerospace.

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BUSINESS AND THE ENVIRONMENT

Laurie Morse describes a US plan that allows companies to turn cuts in sulphur dioxide emissions into dollars

Utilities' chance to clean up

Protecting the environment with legislation is notoriously difficult. Even when the measures to be taken find general agreement, government regulations often result in high costs – either to industry or to taxpayers.

But the group of environmental radicals who crafted the US 1990 Clean Air Act may have turned this situation around. Having achieved a political mandate to clean up the air, they set up a rare market solution for achieving the goal. To date, the programme, which encourages trading in pollution allowances, is getting rave reviews from environmentalists, electric utility customers and from the industry it is assigned to modify.

The Clean Air Act requires that by 2000, US sulphur dioxide emissions be reduced to half their 1980 level of 19m tons. This should remove the acid rain that is killing many north-eastern watersheds.

Rather than force the nation's electric utilities – the largest sulphur dioxide polluters – to adopt uniform technology for pollution abatement, the Environmental Protection Agency defined emissions standards, issued permits for the allowable level of pollution, and then told the utilities to design their own emissions clean-up programmes. If they reduce emissions more than required, they can sell their surplus pollution permits.

"This turns the regulatory system on its head," says Daniel Dudek, senior economist for the Environmental Defence Fund, a Washington-based advocacy group. "Rather than providing a ceiling for compliance the regulations provide a floor. It motivates companies to clean up beyond legal requirements and turn that into dollars. It also inspires innovation in technology and clean-up strategies."

The programme gives utilities unusual flexibility in meeting emissions requirements, and allows them to seek the lowest-cost compliance alternative.

The market-based compliance process is welcomed by the US electric power industry, which faces financial pressures from deregulation. Federal energy rulings are gradually curbing the utilities' monopoly control over their transmission lines, opening the door to cut-rate producers and allowing big customers to haggle over the prices they pay for power. In many cases, electric companies are finding it difficult to recover capital construction expenditures, including those for pollution control equipment, by raising utility rates.

The allowance programme is being implemented in two stages. In the first phase, 110 of the nation's dirtiest power plants, most of them in the mid-west, have until 1995 to cut their sulphur dioxide output by 25 per cent; by 2000 they must reduce emissions by a further 25 per cent.

They will then be joined by hundreds more utilities in phase two of the clean-up, which extends to 2010. By then, US sulphur dioxide emissions will have dropped to 8.95m tons (8.12m metric tonnes). From 2010 onward, there will be only 8.95m tons of pollution allowances available. The EPA will strictly enforce the emissions levels, levying fines of $2,000 (£1,333) for each stray ton of sulphur dioxide output.

Most of the utilities, which usually burn low-cost regional coal to fuel their generators, will comply by installing expensive smokestack "scrubbers", or switch to low-sulphur fuels. However, some, like Carolina Power and Light, will buy additional pollution allowances as the lowest-cost compliance alternative.

CP and L uses clean-burning low-sulphur coal and already meets the 1995 emissions standards. To meet the more stringent standards for 2000, it would have had to install millions of dollars in air-cleaning equipment for only marginal improvement in air quality. Instead, it has purchased 85,103 pollution permits, each allowing one ton of sulphur dioxide emissions for one year in the second phase of the programme. It paid $11.5m, or about $135 each, at an EPA allowance auction held in Chicago in March. The utility expects to buy additional allowances directly from other utilities.

James Davis, CP and L's senior vice-president for fossil generation, estimates the price at about one-third the cost of installing and operating scrubbers. "Purchasing these and other allowances will enable us to delay the need to install scrubbers until 2005 at the earliest," he says. "This translates into direct cost savings for our customers, since they ultimately pay for environmental regulation."

For a relatively clean plant like Davis's, scrubber installation and maintenance costs can be as high as $800 per ton of emission reduction.

Overall, the EPA estimates electric utility customers would have had to pay 30-60 per cent more for the benefits of the Clean Air Act if it were not for the allowance programme. "There will be an increase in electric rates, but it will be far lower than under the old command-and-control system," says Renee Rico, an EPA administrator of the acid rain programme (which is implementing the Clean Air Act). She points out that under the allowance scheme the biggest polluters will make the biggest emissions reductions.

American Electric Power, the US's largest coal-burning utility, has 50 power plants distributed across seven mid-western states. Twenty-one of its sites must meet the 1995 compliance deadlines. Henry Fayne, AEP's controller, says the allowance programme enables his company to over-comply by building a scrubber on one site, and distributing the resulting surplus permits to other plants in the system. "If we over-comply in one place, we don't have to comply in others," he says.

AEP is building a $815m scrubber at its Gavin plant in Gallipolis, Ohio. When it begins operation in 1995, it will cut Gavin's sulphur dioxide output to 30,000 tons a year from the current 388,000 tons. That reduction, and fuel switching at other sites, will bring all 50 of AEP's power plants into compliance.

Pollution permits, like scrubbers, allow utilities to continue to burn local high-sulphur coal. The Clean Air Act has significantly reduced demand for that coal, depressing prices and putting thousands of mid-western miners out of work.

For some utilities, coal mines, and miners, are important customers. Illinois Power, a utility in southern Illinois, used the clean air standards to negotiate lower coal prices in contracts with its suppliers, Arch Minerals and Peabody Coal. With the contract concessions and a portfolio of pollution permits, it will continue to burn about 5m tons of local coal a year, preserving mining jobs and satisfying the sulphur dioxide emissions requirements.

Illinois Power will purchase between 75,000 and 125,000 pollution allowances a year until 1999. After that, it will install scrubbers. Delaying the technology decision will allow new research on scrubbers to be completed, Illinois Power chief executive officer Larry Haab said, in a statement announcing the agreements.

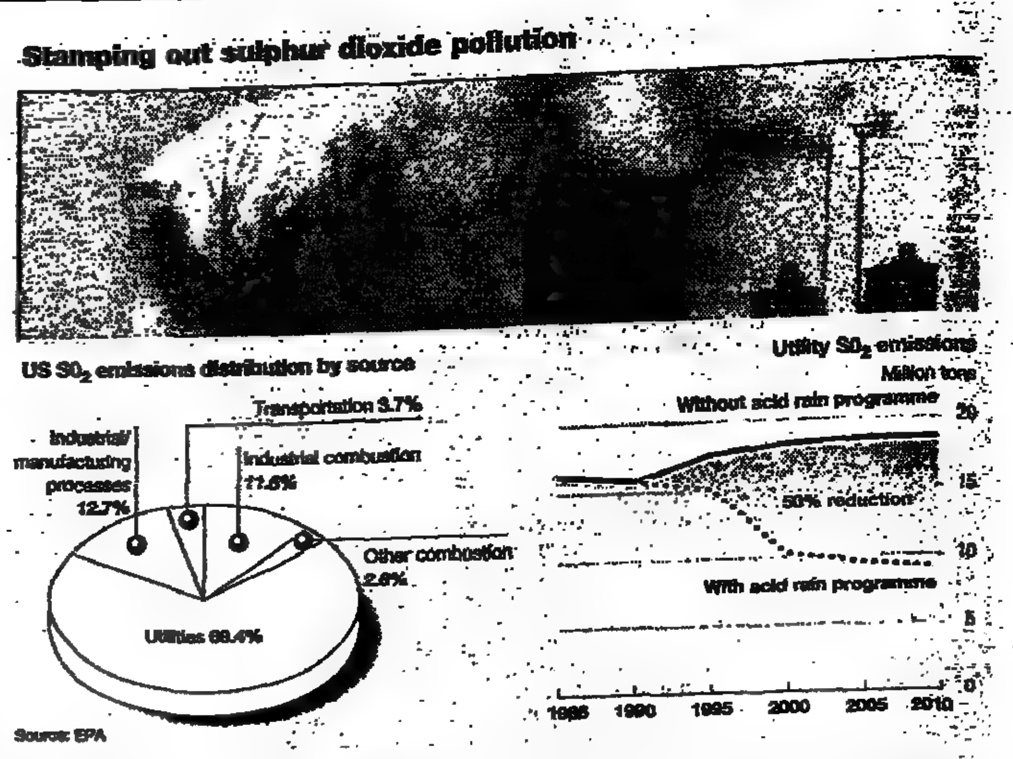
Environmental groups have accepted permits as a low-cost and direct means of reducing pollution. By removing each allowance they buy from the market, they reduce national sulphur dioxide output by one ton for a year. In a notable gesture, North East Utilities, a Hartford, Connecticut-based power company, donated 10,000 allowances to the American Lung Association in support of cleaner air.

One aspect of the allowance programme that is still lagging is a low-cost means for utilities to trade the permits. The EPA is developing a computerised system to track allowances and record ownership changes. But that system is behind schedule, and until it is operational the Chicago Board of Trade will delay holding a second allowance auction, originally scheduled for this month.

Utilities continue to arrange private contracts for permit swaps, with most focusing on allowances for the second phase of the programme.

"All this planning takes tremendous lead time," says Andrew Weissman, a principal in Clear Air Capital Markets, which specialises in allowance trades. "Most companies have finished their phase one planning, and are just starting on phase two."

Stamping out sulphur dioxide pollution



Source: EPA

US firms dodge the drought

By Victoria Griffith

Even during the most severe periods of drought, the extensive grounds at Hewlett-Packard's plant in Santa Rosa, California, remain fresh and well-watered.

Life at the plant was not always this green, though. Shortly after spending $5m (£3.3m) on landscaping at its facilities back in 1977, the company faced severe water shortages and acres of wilting plants.

Then someone had the idea of re-using waste water from manufacturing to irrigate the grounds. The idea took off, and Hewlett-Packard has recently been extending its enthusiasm for water recycling to other areas. The company has experimented with using waste water for toilets on its sites and will soon begin to use industrially-tainted water for rinsing in some manufacturing processes.

Faced with droughts, water use restrictions and increasingly stringent standards for effluents, more and more US companies are beginning to view water as a precious resource.

"Rates have gone sky-high over the last two decades," says Robert Brown, an environmental manager at Hewlett-Packard. "We now pay $1.47 for every 1,000 gallons we use and $5.48 for every 1,000 we dump into sewage. That has led to a complete rethinking of our water usage."

Companies anxious to trim water costs are increasingly creative in finding ways to reduce consumption. Texaco, for instance, is altering plant design at many of its oil refineries to cut water usage.

"We have gone to air coolers rather than water coolers," says Leslie Lakie, environmental manager. "We've also switched from steam to electric pumps."

Whenever Texaco does use water, the company tries to ensure that it has already been used in another part of the refinery. "The basic rule these days is to use the water over and over again until it gets so dirty that you have to clean it up," says Lakie. "We have cut water usage by up to 90 per cent at some refineries."

Environmental consultants say that in certain cases, reducing water usage is a matter of common sense. "A lot of the problems arise from carelessness, like leaks that haven't been fixed, or spillage," says Charles Moores, an environmental consultant at Badger Engineering. "With water rates soaring, though, companies can't afford that kind of waste."

For industries like food and pharmaceuticals, which need extremely clean water, re-cycling poses particular problems. But even here water re-use is not out of the question.

"In many cases, these companies have to clean up water supplies even before they use them," says Christopher Simmons of Ionpure, which produces water purifying systems. "Because they start with ultra-clean water, even after it's gone through the manufacturing process it can still be cleaner than tap water. It makes sense to clean up the used water rather than take in new stuff."

Companies are also finding alternative water sources. The Chevron refinery in Richmond, California, plans to start using district sanitation water – which can be purchased more cheaply than fresh water – early next year. A new federal law requiring companies to collect rain water in an bid to prevent pollution from surface run-off has also created an alternative water source for some groups.

Other companies, such as Shell, are taking in sea water, which is cheaper than fresh water, for processes that are resistant to salt contamination, though its corrosive nature makes this process less popular.

Although US manufacturers use far less water than a decade ago, environmental consultants believe most groups have a long way to go before they achieve high levels of water use efficiency.

"This is a matter of economics. As water becomes more expensive to use and clean up, we'll see more and more water conservation in manufacturing. What's happened so far is just the tip of the iceberg," says Moores.

Television/Christopher Dunkley

Good sports come dressed to kill

Moving *News At 10* means the end of serious commercial television, according to Sir David Nicholas, who was for many years the inspirational chief executive at ITN. But the truth is surely the other way about: the ending of serious commercial television in Britain is leading inevitably to the moving of *News At 10*. Argument continues about where to put ITV's main bulletin within peak time (between 6.00 and 10.30) but commercial forces demand that the ten o'clock slot be cleared so that "adult" drama and movies can be screened uninterrupted – except by commercials, of course – after the nine o'clock watershed, and commercial considerations are now paramount in ITV.

That, among other things, is what the British people have consistently voted for over the last 15 years. As promised, successive Conservative administrations have pursued a market philosophy, forcing commercial competition into everything from health to transport. Broadcasting was a particular target. Now, having destroyed the benign, albeit fortuitously conceived, duopoly system which provided such an extraordinary flow of high quality programmes from the BBC and ITV, the government, with its new rules for broadcasting, has ensured that *News At 10* will cease to be. The only alternative is to reverse the entire thrust of recent broadcasting legislation, replace "light touch control" with a statist rod of iron, and force ITV to stick with a ten o'clock news. Having sown the wind we are reaping the whirlwind. It was all quite foreseeable and predicted here: public service broadcasting in the commercial sector is going down the tubes. Gresham's law is operating, bad is driving out good, and tabloid telly is taking over.

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Watching this week's tennis, athletics and boxing makes you wonder what television's ideal sports personalities will be like in the year 2003. Television has already made them peculiarly boastful and startlingly sexy: how much further down that road can matters proceed? That television is now the chief driving force behind virtually every development in sport seems unmistakable, and, just as members of the Flying Squad began to imitate the characters they saw on screen in *The Sweeney*, so sportsmen and women today clearly seem to take the pictures they see on television as the pattern upon which to model themselves.

In the old days you would have known how Stanley Matthews looked if he happened to play for your local team, and anybody anywhere might have known his face from a cigarette card. But to most of the world the details of his body below the shoulders would have been a mystery. Today we are all intimately familiar not only with John Regis's pectoral development, but with the precise delineation of his primary sexual characteristics: you can hardly miss them as he comes hurtling into the camera covered only in a thin, tight layer of Lycra. Among women athletes matters have gone even further. Some at the Rome meeting extensively covered over the weekend by the BBC favoured a brief top and skin tight pants, leaving the navel bare, like the presenters on the satellite rock video channel, MTV. Others opted for one-piece Lycra outfits, much like the modern bathing suit, cut high on the thigh, low on the bust, and explicitly close in the crutch. The assertion that this sort of tight-fitting outfit is more comfortable than a conventional pair of shorts and a loose vest would carry more conviction if lipstick, nail varnish and ear rings were less in evidence; and if hair stylists are not actually attending in dressing rooms these days they must be lurking close by. The reasons are hardly difficult to guess: people such as the German long jumper Heike Drechsler are now paid huge sums in endorsement fees, and advertisers prefer their heroes and heroines to look sexy and photogenic. Heike sprinting into the lens with baggy shorts flapping will sell fewer carbonated drinks, presumably, than Heike flaunting her all like something out of *Penthouse*. And once the Heike Drechslers have set the trend other athletes, even if lacking endorsement contracts, copy the look, *Sweeney* like.

As for boastfulness, it can reach embarrassing levels, perhaps because sportsmen, encouraged to be self-confident, now use in the first person singular the sort of descriptive passages they have heard from television commentators and coaches who speak, of course, in the third person. Interviewed on BBC2 on Sunday after his magnificent win in the 5000 metres at Rome, Rob Denmark said inter alia: "I was really pleased with the way I ran it, I was cool, I was composed . . . I kept thinking 'You're better than all the others' . . . I just ran the perfect race . . . I was very pleased with the way I ran it . . . I ran a very brave race and it's an understatement to say I'm absolutely delighted . . . I think it shows my maturity that I'm confident enough to do that".

The days of the strong, silent, sporting hero are apparently over. With television calling the shots and creating the personalities which are wanted by the marketing chaps, the sports stars of the future will have to complement their weight training with media management courses to handle all the stadium interviews and personal grooming lessons to prepare them for the cameras. This is not exaggeration. The interview beside track, court or ring is now an integral part of the television presentation; television interviews are written into Wimbledon contracts. When Loyd Honeyghan fought Vinnie Pazienza on ITV on Sunday the former wore some sort of black loincloth and the latter matching shorts and boots covered in umpteen layers of shimmering gold.

Given this transformation of sport into an arm of television marketing, it seems a pity that television continues to be so poor at righting the balance a bit by organising series which keep a journalistic eye on the subject. The latest, ITV's *Sport In Question*, turns out to be a sequence of saloon bar arguments in which, as ever, the panel of "experts" and "celebrities" are given the lion's share of the time, and the members of the studio audience, as ever, hardly get a look in. The development of sport, marketing and television into a single seamless entity appears at present to be irresistible.

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Any defender of freedom of expression would want to champion the BBC's right to dramatise D.H. Lawrence's *Lady Chatterley* which ended on Sunday, but how embarrassing if we have to defend Ken Russell's production. A mixture of playfulness and banality, it offered neither a faithful version of the printed original nor an outrageous Russell romp. The real Russell is a big-screen image maker, and there were occasional reminders of this: however much of a visual cliché, the shot of Connie in pure white searching a glistening black coal tip for her lover was momentarily breathtaking, and the carefully reversed shots showing her return to Wragby Hall, first from below the steps, then from inside the porch, made a pleasant change in a medium which cares so little about mise en scène.

But too often it made you cringe. Russell will insist on acting in his own works these days, and then turning in weirdly ham performances, this time playing Connie's father as a cross between John Bull and Father Christmas. His willingness to exchange Lawrence's heart searching for schlock fiction emerged most clearly in the absurd happy ending where Mellors, gazing sadly into the steamer's wake as he leaves for a new life in Canada, hears the tannoy announcing "Lady Jane is waiting for Sir John Thomas on the upper deck, please come" (nudge nudge) "immediately". The odd thing is that Russell's past work suggests he believes as much as Lawrence did in the redemptive power of sexual passion, yet you would never guess it from this work.

John Regis and Daniel Sangouma revealing in Lycra

Jazz/Garry Booth

The Very Big Carla Bley Band

Without leaders like Carla Bley, the big band format would be in danger of becoming a part of the musical heritage industry. Turned on to jazz as a girl by the showmanship and antics of Lionel Hampton and his orchestra, her development through bebop into abstract and onto the composition of long narrative works has produced a writer who breathes new life into the large ensemble.

The mixed colours of afro-american jazz with shades of the exotic in her scores have reflections of Charles Mingus. But less gothic than the late bass player's dark and dangerous arrangements, Bley's bighearted work is home to more approachable demons.

Like the best of all big band music, The Very Big Band's large mass of bass bears down on the listener with irresistible force. At the Royal Festival Hall on Monday with charts ranging from the newest "On The Stage In Cages" to the oldest "All Fall Down", the 13-strong brass section featured soloists Lew Soloff on trumpet and British tenor saxophonist Andy Sheppard. Delicious mood swings from movement to movement allowed soloists to break easily from the ranks, roaring New Orleans style or squiggling atonally: the crazy sleaze of Gary Valente's hell-fire trombone pitted against the slippery notes of Wolfgang Puschnig's alto. Placing a few chords at the piano and looking like the bad girl from *Bladerunner* in her electrified mop-top, the willowy 55 year old leader directed elegantly.

"Strange Arrangement" was a choice piece of squeaky and off kilter Bley while "Who Will Rescue Your?" opened with melodious melodrama finally crossing over into rocky rhythms projected into the middle of next week by Valente's supersonic trombone (why is this person not seen more outside the Bley bands?). After the interval, the second set began with a wilful experiment in glumness by the addition of violinist Alex Balenescu relieved by slick and speedy changes from Sheppard and Soloff and a clashing of brass which Balenescu's sawing finally made sense of. "Permanent Wave" was described by Bley as slow and soft and she hoped it would stay that way. It didn't, and once Valente had a hold of it, the rest of the band rose grandiosely with him.

Finally and gloriously, Bley gave in to the trombones' bristling slides completely and with Charles Mingus's "Goodbye Pork Pie Hat" consolidated her role as natural successor to the demon big band leader.


Carla Bley: looking like the bad girl from 'Bladerunner', she breathes new life into large ensembles

Sponsored by Silk Cut

Bergen Festival

More than 'bonbons stuffed with snow'

Victor Price visits Grieg's native city on the 150th anniversary of his birth

The Bergen International Festival always ends with the Grieg piano concerto. Listening to it in the fiery performance of the brilliant young Leif Ove Andsnes with the Bergen Philharmonic, on the 150th anniversary of the composer's birth, one realised that this work, more than any other, gave Norway its musical voice.

To say that Norway is proud of this son is an understatement. Since the beginning of the year the country has been turned upside down. There have been drop-in concerts, jazz sessions, folk-song recitals, all connected in some way with the composer. The Lofoten Islands have celebrated his visit. In one town there was even a Grieg marathon.

As the composer's native city Bergen is at the centre of all this. He was born there on June 15 1843, and he died there. This year's festival moved from its normal date in May to coincide with the anniversary. King Harald and Queen Sonja attended the memorial concert, at which a specially commissioned work, *Hommage à Grieg* by Alfred Schnittke, was performed: it turned out to be a charming, wistful piece saved from pastiche by subtle dissonances and a soaring violin solo.

The man who gave rise to all this comes across strongly from an exhibition called "Your Grieg" at the local Museum of Applied Art in the very building where the composer's body lay in 1907. He was mercurial, humorous, often outspoken, always totally honest. Extracts from his 20,000 lively letters (strange how many composers could also handle the pen) provide the sole commentary for an excellent video.

One is struck by how tiny he was: but in spite of constant ill health which sent him round the spas of Europe, he was a mighty atom. He was fearless in expressing his views, political or other, refusing for instance to give concerts in France after Dreyfus was sentenced in 1899.

He seems not to have been very interested in his Scottish ancestry: all Norwegian Griegs are descended from Alexander Greig (different spelling!) – the composer's great-grandfather, who moved to Bergen in 1770 from a small town north of Aberdeen and set up a successful business exporting dried fish and lobster to Britain. His only other real connexion with things British was his friendship with the young Percy Grainger who, he declared, understood him better than anyone else.

In Bergen today you will look in vain for the house he was born in: it was burned down in 1945. The centre of the Grieg cult there is the lakeside home he built himself six miles south of the city at Troldhaugen – 'Trolls' Hill' – together with the wooden hut in the garden in which he did his composing. The house is a Grieg museum, and recitals are given both in it and in a hall built in a little ravine beside it.

The city – a charming place set among mountains, fjords and pine-clad islands – is well provided with venues for music. The big Grieg Hall is an ugly piece of concrete but has a fine acoustic, as does the smaller Haakonshalle, built by an early Norwegian king in the 13th century.

There is also the National Theatre, which dates from the turn of the century and is much devoted to Ibsen. This year it presented a new production of *Peer Gynt* with the Grieg incidental music, contrasting with the brilliant Ingmar Bergman production of the same play in which Grieg features not at all. Another new work is the ballet on the composer's life, *Grieg A Jour*, with choreography by Solvi Edvardsen and music by Frank T. Nordensen.

You come away from all these events with a corrected impression of an otherwise hackneyed composer. Grieg's music is much more than those "bonbons stuffed with snow" of the Debussy gibe. The small cubicles at the exhibition where they play samples from his compositions bear that out; in the best of the songs and chamber music, in folk song arrangements that look forward to Bartók, a much stronger musical personality is revealed.

Spitalfields Festival/Richard Fairman

David Bedford's 'Touristen Dachau'

Although it makes much of its setting among the remains of a Georgian area of London, the Spitalfields Festival supports 20th-century music as well as period. There is something ironic about going to hear the newest of new music in Hawksmoor's Christ Church, which looks more elderly and in more desperate need of repair every year.

The main new work this time was David Bedford's *Touristen Dachau*, a festival commission. It is described as a chamber opera, but solo cantata might come closer. One singer and a group of chanting schoolboys (hidden behind pillars here, not really audible) are the only performers, supported by a small instrumental group of three strings, three wind and percussion. There is no acting as such, no plot; if there is any drama, it is in the mind.

The central character is a tourist at the concentration camp at Dachau – presumably a woman, as the part was taken by Jane Manning, accompanied by her group, Jane's Minstrels. In the text, however, the sex becomes interchangeable. The tourist assumes the identities of various people associated with the place, past and present, a student, a Jewish prisoner, a nun (a Catholic convent was built at the Dachau site) and so on.

Bedford's aim is less to characterise them than to create the general atmosphere. By choosing a present-day tourist as its mouthpiece Michael White's text invites its quota of naive observations, which may be fair enough, but the final scene (woman contemplates God himself as a tourist to sanctimonious hymn-like accompaniment) is surely too mawkish. One comes away missing the pain, the ethical grit, the strident sounds, with which composers usually load this subject to excess.

The Bedford work lasted barely half an hour, so there was room for more on the programme. Unfortunately the infirmity of the soprano's voice in its present state sank the other vocal works without trace. In different circumstances Arne Nordheim's *Tre voci* might prove a potent short cycle of Italian settings. Of the instrumental pieces, Thea Musgrave's Impromptu No. 2 for wind trio was welcome for its bubbling energy and glistening textures.

INTERNATIONAL ARTS GUIDE

■ AIX-EN-PROVENCE

Opening on July 11, this year's festival has a diverse trio of operas: Weber's musically abundant Euryanthe (conducted by Jeffrey Tate), Handel's magnificent Orlando (with Felicity Palmer), both in new productions, and a Don Giovanni revival starring William Shimell. Among the concerts are Berlioz's L'Enfance du Christ in the Cathedral and Campra's L'Europe galante in the Archbishop's Palace theatre. Recitalists include Andreas Schmidt, Gundula Janowitz, Leila Cuberli and Nathalie Stutzmann. Ends July 28 (4217 3434)

■ AVIGNON

Jacques Lassalle's Comédie Française production of Moliere's Dom Juan opens the festival on July 9.

There will be two Jorge Lavelli productions - Edward Bond's Maison d'arrêt (July 15-23) and Steve Berkoff's Kvetch (July 27-Aug 2). Other attractions include stagings of Bulgakov's Adam and Eve (July 10-18), Sophocles' Oedipus at Colonus (July 27-Aug 1) and a Russian-language version of Tom Stoppard's Rosenkrantz and Guildernstern are Dead (July 27-Aug 1). The contemporary music programme focuses on Harrison Birtwistle and Klaus Huber. Ends Aug 2 (9086 2443)

■ BAD KISSINGEN

The chief attraction of the Kissinger Sommer is its setting in a north Bavarian spa town, with its former royal house and fin-de-siecle theatre. This week's programme includes a programme of Mozart and Verdi arias tonight with Margaret Price, a song recital by Ruth Ziesack tomorrow, a Tchaikovsky chamber music concert on Fri, an Italian opera concert with Katia Ricciarelli on Sun and an orchestral concert conducted by Bruno Bartoletti on Sun.

Next week: a programme of Italian oboe concertos, a recital by Gwyneth Jones and orchestral concerts featuring Lynn Harrell, Lorin Maazel and Kurt Sanderling. Ends July 18 (0971-807110)

■ BAYREUTH

Interest at this year's festival, opening on July 25, focuses on a string of debuts. East German dramatist Heiner Müller tackles his first-ever opera production, Tristan und Isolde, designed by another Bayreuth debutant, Erich Wonder. After a decade as Bayreuth's reigning Kundry, Waltraud Meier attempts the soprano heights of Isolde, while Siegfried Jerusalem tackles his first Tristan.

In Parsifal, the new Kundry is Deborah Polaski, while Poul Elming and Linda Finnie join the cast of Lohengrin. Donald Runnicles returns to conduct Tannhäuser. Ends Aug 28 (0921-20221)

■ BEAUNE

The Festival International de Musique Baroque, one of the more coherent among French regional music festivals, opens on Fri with a performance of Bach's Magnificat by Collegium Vocale conducted by Philippe Herreweghe.

Highlights of this year's programme include a Bach concert by La Petite Bande with Sigiswald Kuijken and Nancy Argenta, Vivaldi motets with Amsterdam Baroque Orchestra under Ton Koopman, medieval Spanish music with Hesperion XX under Jordi Savall, a concert by The Tallis Scholars and performances of Purcell's The Fairy Queen and Handel's Scipione. Ends Aug 1 (8022 2451).

■ COLMAR

The south-east corner of France seems an unlikely place for high-powered Russian musicians to congregate each summer, but thanks to violinist Vladimir Spivakov this Alsatian town now has a respectable annual music festival. Spivakov plays the Tchaikovsky concerto in the opening concert on Fri, the first of four programmes featuring the Russian State Symphony Orchestra.

Other visitors include Evgeny Kissin, Yehudi Menuhin, Shlomo Mintz and Vadim Repin. Ends July 14 (8920 6894)

■ LA ROQUE D'ANTHERON

The castle grounds of La Roque d'Anthéron, equidistant from Avignon and Marseilles, are the peaceful setting for a piano festival which has been gathering international renown since it was founded eight years ago. In the opening concert on July 31, Brigitte Engerer is soloist with the Novosibirsk Philharmonic Orchestra from Siberia. There are 33 concerts in all, with programmes celebrating anniversaries of Grieg, Tchaikovsky and Rakhmaninov, a cycle of Schubert sonatas on modern concert grand and fortepiano, a Debussy series using period instruments and introductions to Medtner and Corigliano.

The line-up of artists includes Christian Zacharias, Nikolai Demidenko, Maria Joao Pires and Stephen Hough. Ends Aug 22 (4250 5115)

■ MONTPELLIER

Radio France's annual festival, opening on July 13, continues to promote off-the-beaten-track operas in concert format.

This year's line-up includes Morlacchi's Barber of Seville, Wagner's Rienzi, Zemlinsky's Birthday of the Infanta, Puccini's Le Villi and - best of all - Reyer's grand, unjustly neglected Sigurd, with a fine cast headed by Chris Merritt.

Other highlights include a Beethoven piano concerto cycle with Brendel, Marriner and the ASMF, Dutilleux's Violin and Cello Concertos played by Pierre Amoyal and Lynn Harrell, the Gustav Mahler Youth Orchestra with Abbado and a Wagner concert with Hildegard Behrens. Ends Aug 11 (6702 0201)

■ NICE

This year's Grande Parade du Jazz (July 13-24) has an exciting line-up of big names. Lionel Hampton, Pat Metheny, Joe Henderson, Illinois Jacquet and George Benson feature among crossover types such as Manhattan Transfer, Wynton Marsalis and Manu Dibango (9371 8960)

■ ORANGE

This year's operas are La traviata (July 17 and 20) with Kathleen Cassello, Roberto Alagna and Paolo Coni, and Otello (Aug 7), with Vladimir Atlantov, Alain Fondary and Nina Rautio (9034 2424)

■ RUHR

The fifth Ruhr Piano Festival features 40 internationally renowned musicians playing in nine German cities, including Bochum, Gelsenkirchen, Duisburg, Hamm and Herten. There is no programme theme, but several concerts include an introductory talk by German author and critic Joachim Kaiser. Pianists featured during the coming month include Rudolf Buchbinder, Oleg Maisenberg, Nelson Freire, Dmitri Alexeev and Melvyn Tan. Ends Aug 14 (Rhein Ruhr Ticket 0201-268081)

■ SCHLESWIG HOLSTEIN

The festival spreads out from Hamburg, Lübeck and Kiel to some of the most attractive towns in northern Germany, in venues with a more local atmosphere than most festivals. There is a strong Polish influence this year, with three Polish orchestras and performances of Szymanowski, Penderecki and several less familiar compatriots. Solti conducts the festival orchestra this week in Hamburg, Salzau and Neumünster. Other concerts are given by the Philharmonia with Sinopoli, the Kirov Opera Orchestra with Gergiev, Orchestre de Paris with Bychkov and the Royal Philharmonic with festival supremo Justus Frantz. The line-up of recitalists includes Jessye Norman, Anne Sophie Mutter, Shura Cherkassky, James Galway, Margaret Price and Peter Donohoe. Ends Aug 22 (0431-567080)

■ TEGERNSEE

The picturesque setting of Kreuth at the foot of the Bavarian Alps, makes Musikfest am Tegernsee one of Europe's most intimate festivals. Founded four years ago by the late Russian violinist Oleg Kagan and his cellist wife Natalian Gutman, it attracts high-powered Russian virtuosi, often little-known in the West. In the opening programme on Sat, Gutman plays baroque cello concertos. Ends July 14 (08029-1819)

ARTS GUIDE

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Wednesday: Festivals Guide.
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Saturday Super Channel: Financial Times Reports 0930
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Sunday Super Channel: West of Moscow 1830
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Sky News: Financial Times Reports 1330; 2030

Clock keeps ticking

Simon Holberton on prospects for a deal on Hong Kong

As Mr Chris Patten, Hong Kong's governor, sits down for a meeting of the British cabinet's Hong Kong committee tomorrow he could be forgiven for feeling that his firm stand with China in negotiations on the colony's political future has been vindicated.

Beijing said it would never again talk to the British about Hong Kong's development if Mr Patten did not withdraw his blueprint for a fairer, more open way of electing members of Hong Kong's Legislative Council (LegCo), the colony's lawmaking body. It also said it would never talk if Mr Patten published his legislation.

Mr Patten, has not withdrawn his proposals – they remain the British negotiating position – and he did publish his legislation. Beijing has returned to the negotiating table.

Tomorrow's meeting of the British cabinet's Hong Kong committee will give ministers an opportunity to take stock of progress made in the talks in Beijing. It will allow them to fine-tune Britain's negotiating position and to consider in what circumstances Britain would be prepared to terminate the talks.

More important, it will provide an opportunity for ministers to consider how far each side is likely to compromise to secure agreement on Hong Kong's political future.

Only six months ago China was actively undermining business confidence in the colony by trying to unseat the governor. Now Beijing is taking a more positive approach than when the talks began in Beijing in late April.

China has allowed several high profile public works contracts to proceed, and it has indicated it wants Hong Kong's HK$165bn airport to go ahead.

It has also proceeded with plans for nine state companies to seek listings on the Hong Kong stock exchange.

Progress on such projects reflects, in part, Beijing's wish to sustain Hong Kong's economic and business success after sovereignty reverts to China in 1997. It is also the result of increasing co-operation between China and much of Hong Kong's business community, eager to secure good relations with Beijing before the handover.

But if there is evidence that China is moderating its position on economic matters – there is no sign of progress on the political issues. China appears to be as implacably opposed to the governor's plans to extend democracy to Hong Kong as it has been since the proposals were unveiled last October.

The talks on Hong Kong's political development were a barren exercise until the sixth round which ended last weekend. There was no breakthrough, but the Chinese government set down for the first time its specific objections to the Patten package.

Mr Jiang Enzhu, China's chief negotiator, presented Beijing's view on the two most controversial aspects of the package. These are the governor's proposal for an electoral college which will elect 10 members to the LegCo in 1995, and his proposal to broaden the franchise of 30 "functional" constituencies, which represent special interest groups, such business, industry and the professions.

In the words of a senior Hong Kong government official, 'horns have been locked'

In the words of a senior Hong Kong government official, "horns have been locked".

Britain has sought to improve Mr Patten's tactical position in the talks by asking the Chinese to agree to full democratic elections in Hong Kong by 2007.

It has also asked for Hong Kong government representation in a Chinese committee which will be formed in 1996 to prepare for the transfer of sovereignty.

Mr Patten is prepared to give ground, specifically on his proposal for the creation of nine new functional constituencies, to be added to the existing 21.

Originally he envisaged carving up Hong Kong's 2.8m workforce into nine electorates. China saw this for what it was - an attempt to get more broadly-based representatives elected to the LegCo.

More important, the proposal has failed to win support among LegCo members. Mr Patten knows it would probably be defeated in LegCo if it were deciding the matter.

The governor continues to claim there are points on which he will not compromise. These are: the need to broaden the electoral base of the functional constituencies; full democratic election of all members of the electoral college; and, a commitment by the Chinese to define the criteria of a "loyalty test" LegCo members will have to pass if they want to serve after China resumes sovereignty in 1997. The governor will want the cabinet to endorse his stance on these issues.

He will also want to remind ministers that time for negotiation is not infinite. Mr Patten does not tire of reminding Hong Kong and China that measures have to be in place to ensure adequate preparation for elections in 1994 and 1995. As Mr Patten put it yesterday, just before he flew to London, "tick tock goes the clock".

The governor has indicated that he wants an agreement, or at elast a sign that agreement is not far off, by September. He has not called this a deadline, for fear that China might treat it as a deadline that must be broken.

An autumn target is important for Mr Patten since he will want something positive to present to the Legco at the opening of its 1993-94 session on October 6. The governor's credibility and that of his administration would suffer if he were able to say only that the talks were continuing.

Mr Patten's popularity remains high in Hong Kong as does support for his proposals for political liberalisation. And nobody is yet arguing that it is time to pull out of the talks. Yet Mr Patten will have to be seen to have done all in his power to secure an agreement if he is to win broad public support.

The governer is an optimist; he believes China and Britain can do a deal. In believing this he is betting that China's interest in achieving a trouble-free transition from British to Chinese rule in 1997 will make Beijing more prepared to compromise than it has so far been prepared to do.

India's economic reformers have baulked at radical restructuring, says Stefan Wagstyl

No long-term gain without pain

When India embarked on economic reform two years ago there was much talk of the country imitating China's rapid economic take-off. But that prospect now appears more remote.

Political, social and economic developments have combined to persuade Mr P V Narasimha Rao, the prime minister, and Mr Manmohan Singh, his finance minister, to allow the momentum of reform to slow.

Their performance will come under scrutiny this week at the annual meeting in Paris between India and its international aid donors, led by the World Bank. They will get credit for shrugging off almost 40 years of socialist-inclined central planning as they have liberalised trade rules, reduced the public deficit and introduced a market-based exchange rate. But the Paris meeting will note that the government in Delhi has shied away from politically difficult decisions.

The government's reluctance to close state enterprises means India has not seen the drastic declines in output experienced in other economic restructurings, for example those in eastern Europe. Instead, the Indian economy grew by 1.2 per cent in the year to March 1992, the difficult first year of reform, by about 4.5 per cent in 1992-93, and is forecast to reach 5 per cent for 1993-94.

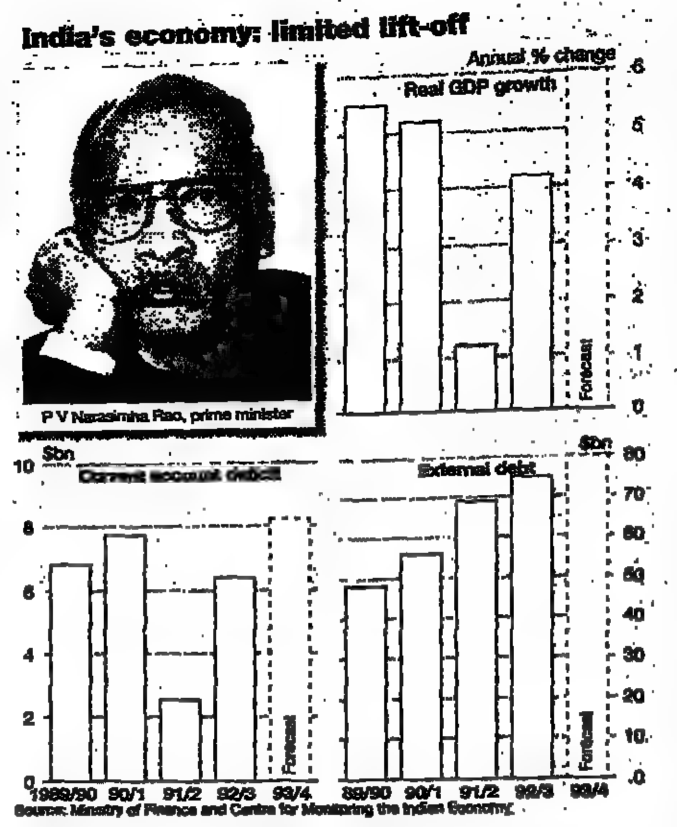
"India has seen growth despite readjustment," says Mr C Rangarajan, the governor of the Reserve Bank of India, the central bank. "We have something to show off."

But critics say too little real restructuring is taking place. "India has not been through the public and private sector shake-out which is necessary to create a good basis for long-term growth," comments an economist working for an international aid agency

Ministers have had political cause to go slow this year. Last year's Rs40bn (£836.8m) scandal in the Bombay securities market shook their confidence. Banks and stockbrokers circumvented rules to channel money illegally into the stock market in the scandal which was widely, though wrongly, perceived to have resulted from liberalisation. The government was also distracted by violence following the destruction by Hindu militants of the Ayodhya mosque.

There is, however, a more fundamental reason reform has lost momentum: a lack of popular support for radical change.

India's economy: limited lift-off



Source: Ministry of Finance and Centre for Monitoring the Indian Economy

About 30m of the country's 880m have jobs in the so-called organised sector – that is, in large public and private units which cover all main areas of the economy from the civil service to railways and steel. They, with their families, form the majority of India's 150m-strong urban middle class. Some in this class would benefit from opportunities created by liberalisation. But many fear they would not, and so resist the changes. The first demonstration after the reforms started in mid-1991 was, for example, mounted by clerks at over-staffed state-owned banks, insisting liberalisation should not endanger their jobs.

The main beneficiaries of reform would be the country's remaining 700m-plus people, who are excluded from the benefits enjoyed by those in the organised sector, such as guaranteed jobs. Under the old system, many of these poor have benefited from food price subsidies and similar hand-outs. But they have been disadvantaged through being restricted to high-priced, low-quality goods produced by protected Indian industries and through limited access to basic services such as education.

These people have expressed few strong preferences about the reforms. But poverty and ignorance prevent most from developing a political voice. India's policymakers often say they cannot proceed with reform as fast as China because, as a democracy, India must consider conflicting interests. The truth could be that India might proceed faster with economic reforms if the interests of these poor were better voiced.

Even so, the changes India has made so far have been fundamental. After pursuing economic self-reliance for 40 years, India is opening up to the world by cutting import duties, reforming the exchange rate and promoting exports and inward foreign investment. The "licence raj", a panoply of industrial controls, has mostly been dismantled. Despite the securities scandal, financial deregulation has gone ahead, including liberalisation of foreign institutional investment.

Businessmen have responded by proposing an unprecedented number of new projects, many involving foreign technology. These include power stations, electronics plants and textile mills. Foreign companies have, since mid-1991, pledged to invest more than US$2bn. Mr B K Modi, head of the Modi group, an industrial combine, says: "Indian industry is already getting ready for international competition."

But the willingness to plan has not – so far – always been matched by actual investment. Foreign investors have committed only about 20 per cent of the funds promised. Mr S K Khanna, senior partner in India of Arthur Andersen, the accountancy firm, says: "We don't see a great rush to invest."

This caution has held back growth. A rise in exports, without which India cannot earn the foreign exchange to fund its investment needs, was just 3.6 per cent in the year to March, against a target of over 15 per cent. Industrial production grew in the same period by only 3.8 per cent, with 6 to 7 per cent forecast for this year. These growth rates accord with India's past experience but fall well short of those achieved in the high-growth economies of east Asia, whose example India seeks to follow.

Large-scale investments take time to come to fruition. But a more basic reason for sluggish growth is that many Indian factories still produce goods uncompetitive by world standards. A sharp increase in output, particularly exports, can come only if these plants are rigorously restructured.

Reform-minded sceptics also need convincing that bureaucratic fingers really are being lifted from the economy. While many controls have gone, officials' desire to exercise economic power has not. For example, the telecommunications ministry has been deliberating for almost a year on the award of licences for India's first cellular telephone network.

Reform of India's labour laws is no less important to promoting growth. These laws, which place tight restrictions on employers' rights to dismiss workers, are among the most important obstacles to reform state-owned enterprises. The government wants to privatise sound enterprises and to restructure the rest, using the proceeds of privatisation. But investors show little appetite for shares in the state companies, which account for about two-thirds of workers in large-scale employment, because of the government's unwillingness to press ahead with job cuts. Ministers retreated from reform of labour legislation late last year.

Another critical issue is further financial reform – especially the restructuring of nationalised banks. For too long, these banks have channelled low-cost funds to state-owned enterprises and other politically approved borrowers, such as farmers, who were often under no pressure to repay. The government is injecting funds to help the banks write off Rs100bn (£2.14bn) in bad debts. It is also slowly liberalising lending rules to make banks more commercially minded – but much more slowly than critics want.

Carrying out the necessary measures would bring pain to many but would also release resources to tackle India's other deep-seated economic weaknesses: shortages of electricity and transport as well as inadequate education and population control programmes. Besides helping the poor, such investments would eventually assist economic growth.

This week's meeting in Paris will set the tone for decisions by donors over the next year on aid totalling about $7bn. Donors are unlikely to withhold money, but they would give with better grace if the pace of reform was faster. Indian officials will argue very hard that they have done more than enough to promote reform. By the standards of their own country's past, they have indeed moved with surprising speed. But by the standards required to satisfy India's aspirations, the pace is much more sedate.

LETTERS TO THE EDITOR

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Fax 071 873 5938. Letters transmitted should be clearly typed and not hand written. Please set fax for finest resolution

British Gas: monopoly and costs at issue

From Mr C H Brown.

Sir, Your editorial, "Abolishing the gas monopoly" (June 29), raises some very important issues relating to the public interest. Although the theory of your argument is plausible, a number of the practicalities have not been properly addressed.

First, a competitive framework would, as the article rightly concludes, lead to the phasing-out of subsidies to about 12m households with lower levels of consumption. But can it really be in the wider public interest for these people, mostly less well-off, to face increases in their gas bills of up to 94 per cent? Who else would pay? The shareholder or the government (taxpayer)? The present system works efficiently with high levels of customer satisfaction on value for money and quality of service. Prices have come down by 20 to 25 per cent since privatisation, in contrast with the electricity industry where competition has yet to develop and prices have gone up – hardly an appropriate comparison.

Our company is neither afraid of competition nor protected from it. On the contrary competitors are now operating in 53 per cent of the firm industrial market, and 13 per cent of the tariff market above 2,500 therms. We have published proposals that will also ensure competition in the interruptible market. There are two further practical hurdles. Accurate metering is essential for developing a competitive market, for without adequate daily measurement and the means of using that information, there would be significant extra costs leading to massive consumer discontent.

Huge strides have already been made in producing a technically advanced ultrasonic meter. Field tests are already taking place, but full development is some years away. Again who will pay? But the most critical issue you have overlooked is the safety of gas supply. What distinguishes gas from electricity is that when it fails it is dangerous. That is the main reason why no other country has competition in gas supply to domestic households. This is the single issue on which there must be no compromise.

C H Brown,
chief executive,
British Gas,
152 Grosvenor Road,
London SW1

From Mr E R Stein.

Sir, Lex comments ("British Gas", June 22) that "figures [on rate of return] around 4.5 per cent for existing assets and 7 to 8 per cent for new investment look sensible". No wonder that the issue which excites British Gas most is its desire to retain the pipelines. This seems to rank in importance above everything else, even the domestic market.

Maybe Lex has been able to unravel British Gas's cost base to conclude this. Without full inspection of British Gas's costs and its apportionment to different aspects of the business – as well as answers to many of the other strategic issues which are central to the Monopolies and Mergers Commission inquiry – to sympathise with British Gas and its rate of return arguments would be to fall into a ready trap. The result would be potentially damaging effects on the developing competitive structure of the industry and to the detriment of the price of gas paid by end-consumers.

E R Stein,
gas marketing director,
British Fuels Gas,
Cawood House,
Otley Road, Harrogate

Service contract rights

From Mr Michael D Varcoe-Cocks.

Sir, Corporate lawyer Ronnie Fox writes that the starting point for calculating a payment for termination of employment of an executive *is* (my emphasis) the amount that the executive would have earned during the unexpired notice period (Letters, June 28).

Although I agree broadly with the rest of the letter, as a fellow corporate lawyer, I believe the starting point *should be* what the executive would have been entitled by contract under his service agreement (including any provisions for mitigation), although earnings for the unexpired notice period *may* form an important element in the final amount. Mr Fox is right to point out the unfairness of mitigation in the case of a senior executive in his 50s, but where such an executive is able to move quickly to a new job on comparable terms, there is no reason why his compensation should be not be mitigated if that is what the service agreement provides.

The agreement is what the parties negotiated at the outset and, where senior executives are concerned, they will have had a reasonable say in the terms. The agreement should foresee a broad range of possibilities and provide a reference point for both employee and employer to assess the likely result of early termination.

Michael D Varcoe-Cocks,
5 Brackenbury Road,
London W6 0BE

Potentially painful position

From Mr Walter Grey.

Sir, The new chancellor, in his FT interview ("A rounded bloke at the Treasury", June 25), declared his to be "essentially a political post", but did not feel disqualified from handling monetary policy, which is essentially technical – like the administration of justice – and must be non-political to achieve the best results.

Small wonder, in the debate over an independent Bank of England left to conduct monetary policy free from political interference, Clarke acknowledged himself to be "sitting on the fence" – an uncomfortable position, nevertheless, if maintained for any length of time.

Walter Grey,
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UK productivity growth and the trade deficit

From Mr Terry Barker and Mr Richard Lewney.

Sir, Samuel Brittan is right to emphasise the substantial changes in the structure of UK trade and the increased importance of services ("That manufacturing fallacy again", June 28). Our long-term projections, based on a detailed analysis of trade performance by manufacturing and service industries, forecast a sustained reduction in the huge deficit on the balance of payments as the European recovery gets under way and the effects of the sterling devaluation come through, even with a recovery in UK domestic demand.

However, these forecasts are predicated on continued improvements in competitiveness, and in particular strong productivity growth in both manufacturing and traded services. The issue for policy is whether government has a useful role to play in sustaining these improvements, for example through re-entry to the exchange rate mechanism at a competitive rate, raising standards of education and training, or measures to stimulate innovation. The technical question of whether the market will restore a sustainable current account position misses the point. There will, of course, exist various combinations of the terms of trade and domestic demand consistent with external balance. A competitive economy will enjoy higher terms of trade and no external constraint on domestic demand growth.

On interpreting the recent data showing strong import growth, we doubt that there is any significant lag between domestic spending and imports, and believe that the answer lies rather in sterling's overvaluation and the composition of domestic spending (eg investment demand for goods in which the UK is not specialised). The higher share of manufactures (as opposed to raw materials) in imports means that imports are more responsive to relative price changes than ever, and we expect a relatively strong response to sterling's decline. Incidentally, we also expect the large increases in import prices to begin to be reflected in retail prices shortly.

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FINANCIAL TIMES

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Back Nafta now or lose it

SUPPORTERS IN the US of the North American Free Trade Agreement are belatedly waking up to the possibility that the accord may fail to pass Congress. Unless they do something about it soon, the treaty may be lost.

The agreement's motley group of opponents has been allowed to dominate a debate in which the soundbite has counted for more than cool assessment. Americans have heard a lot of the "sucking sound" of US jobs heading south of the border if the agreement goes ahead but little about the jobs that are being created by the development of Mexico as the fastest growing market for US goods.

US exports to Mexico expanded to $44bn last year. If, as is commonly supposed, each $1bn of US exports is worth 20,000 US jobs, the Mexican market – growing in part because of the prospect of a free trade agreement – has been responsible for the creation of nearly 500,000 US jobs in the past few years.

There will, of course, be losers in the US jobs market as well as winners. But rejecting the agreement will not save American jobs, it will simply increase the chances of lower-skill jobs migrating to lower-wage economies beyond Mexico, for example in Asia.

From the standpoint of the US economy, better those jobs move to Mexico than to the hungry economies of east Asia: for every dollar Mexicans spend abroad on foreign goods, 75 cents is spent in the US, a much higher ratio than any Asian country.

Capital flows

Rejecting Nafta would sharply reduce capital flows into Mexico and probably trigger a devaluation. This would disrupt Mexico's economic prospects and reduce US exports to Mexico.

Worse, the impact of the treaty's rejection on the Mexican political system would be regressive. While the administration of President Carlos Salinas would probably not shoot itself in the foot by reverting to economic populism, there would be little incentive to continue with political reform and the US would have lost its influence in the process.

The US would be seen instead as having spurned the outstretched Mexican hand. A nationalist backlash could follow. While the dinosaurs of the ruling party would not be unopposed, they could emerge from the shadows, armed with anti-gringo rhetoric, to lead the party into the August 1994 presidential election.

The US would face once more a suspicious neighbour to the south and the historic advances in US-Mexican relations over the past 10 years would be damaged. Moreover, the Clinton administration would find it difficult to forge a constructive foreign policy in Latin America. For the region's governments, there would be no more potent symbol of US attitudes than a rejection of Nafta.

Stumbling blocks

As many Nafta critics point out, Mexico is far from being an open democratic society in which the rule of law is paramount. This is bound to lead to tensions within Nafta. Yet if these critics sincerely desire an improvement in the way Mexico is governed, then that is surely not to be achieved by estranging Mexico from the US.

There is a further stumbling block: the supplementary accords now being negotiated on labour and environmental standards. Because of the implications of these understandings on US sovereignty, they are of largely symbolic value. As such, they should not be allowed to block passage of the treaty.

It will not be easy to persuade a Congress, with 110 new representatives and 34 new senators who above all desire re-election, to vote in favour of a deal which, in the popular perception, will cost US jobs. Convincing them of its advantages cannot be left to the Mexican government and a handful of US politicians. Those US businesses and trade unions which stand to benefit need to engage more vigorously in pressing the case for Nafta.

Mr Clinton and his cabinet have at last begun themselves to lobby publicly for the agreement, but they should not wait until the supplementary accords are completed before beginning the campaign in earnest. Many of President Clinton's critics are looking for signs that he can decide on a course of action and push it through to a conclusion. Nafta is an important test.

Second best pensions

IN BRITAIN, as in continental Europe, public finances have been deteriorating and the population is ageing. Political reality thus dictates that pension provision will be undertaken increasingly by the private sector in the decades ahead. Against that background the National Association of Pension Funds' call for a national debate on meeting the financial needs of the elderly is all to the good. But the pensions lobbyists have slightly spoiled their case by suggesting, before the debate has even begun, that the answer lies in the current approach to occupational pensions. This is not self-evident; and the NAPF's campaign may anyway have come too late.

If occupational pensions have become a £350bn-plus business in Britain, it is because governments have provided tax relief for pension contributions, while employers have been prepared to remunerate employees in a tax-efficient form. The political tide has long since turned against such pension fund paternalism. Tax reliefs for pension contributions are under attack by the backdoor, the latest instance being the reduction in tax credits on UK dividends. Personal pensions, meantime, have been expensively promoted.

On the employer side it now seems questionable, with unemployment at record levels, whether companies need to enter the financial services business to compete in the labour market for employees. Having enjoyed pension fund holidays when investment returns were high, employers will think twice about taking on big commitments to new employees now that the pension fund surpluses are eroding. The temptation to limit the company's financial obligation by switching to defined contribution schemes, which simply pay out what the contributors put in, together with the investment return on the money, must be strong. It could become stronger if the Goode committee on pension law adds to the burden on companies.

Older workers

At first sight, a switch to defined contributions might seem no bad thing. Employees might be able to exercise some control over their deferred pay, since the company would not be underwriting the solvency of the fund and thus wanting control as a *quid pro quo*. Many of the cross-subsidies that mar the workings of defined benefit schemes, which favour long stayers against the mobile or the redundant, and the low paid against the high paid, would be eliminated.

Equally important, defined contribution schemes do not incorporate an incentive to sack older workers, in contrast with the existing system which has probably made a significant contribution to long-term unemployment because the cost of funding an individual's pension tends to rise towards retirement. Also, ownership rights can readily be identified and valued.

Arbitrary level

But there are snags with defined contribution schemes, not least the arbitrary level of the pension received. Retiring in one week rather than another in October 1987, when global stock markets crashed, would have dramatically affected a pensioner's living standards. Because of the need to diversify against such volatility, fund managers are forced to adopt a lower-risk, and thus lower-reward, investment policy. And if the defined contribution scheme takes the form of a personal pension, costs can be absurdly high.

It would be dangerous to underestimate the staying power of defined benefit schemes, not least because the biggest beneficiaries tend to be the bosses, many of whom have shamelessly manipulated pre-retirement salaries to boost their pensions. It may be that, as with Churchill's celebrated verdict on democracy, they are the worst form of private pension provision, apart from all the others. But in the absence of authoritative data to establish who loses how much from each type of system on a range of assumptions about employee mobility and investment returns, the proponents of the status quo will find it hard to beat off an alternative that is transparent, much less prone to conflicts of interest and far more healthy for labour mobility and employment. The challenge for the pensions lobby is to come up with convincing numbers and facts. Assertions will not be enough.

The world on his shoulders

John Gummer must choose between urgent priorities at the environment department writes Bronwen Maddox

Mr John Gummer has inherited a long list of tough choices as UK environment secretary as well as unresolved battles with other government departments. After a month in the job, there are questions about whether he has the clout in the cabinet to meet the challenge.

The government's announcement this week that it is holding a further public consultation on the future of Thorp, the £2.8bn nuclear reprocessing plant at Sellafield, has delayed a final decision on that thorny question until autumn. Mr Gummer is responsible for the eventual decision, however, and the awarding of a licence to the plant, as seems likely, will earn him the opposition of environmental groups.

A year after the Rio Earth Summit, he must also find a credible way for the UK to meet its targets on global warming, which Mr John Major, the prime minister, has said is a national environmental priority. This week found Mr Gummer at odds with his European counterparts, whom he accused of trying to ambush the UK over a proposed energy tax to curb emissions of so-called greenhouse gases.

The most complex question Mr Gummer must address is whether the UK – and other industrial countries which have signed international "green" treaties – can afford the ambitious environmental policies they have designed over the past two decades. As recession has increased awareness of the costs of going green, the environment has slipped on the UK political agenda.

Mr Gummer built up some green credentials as agriculture minister, mainly for his opposition to commercial whaling. But pressure groups remain wary of his appointment, feeling he kept silent on controversial issues, such as agricultural contamination of rivers.

They are concerned, too, that his appointment signals a downgrading of environmental issues in the Cabinet. To many environmentalists, Mr Gummer is a lightweight against his predecessors – Mr Chris Patten, Mr Michael Heseltine and Mr Michael Howard, now home secretary.

Concern about Mr Gummer's priorities is warranted because he takes over at a critical point in the development of the UK's environment policy, when it is widely accused – by other governments, environmentalists and industrialists – of being patchy and incoherent.

It is barely five years since the UK began seriously to develop an environment policy. The turning point was Mrs Thatcher's apparently overnight conversion to green issues when she told a startled Royal Society that scientists should worry more about global warming. The government's belief that there was political capital in the environment was strengthened the next year when the Green party grabbed 15 per cent of the vote in the 1989 European elections.

The white paper drawn up by Mr Chris Patten in 1990, This Common Inheritance, is one of the government's most ambitious attempts to design a policy. It declared an "intense hope that we can pass on what we value most about our heritage to our children". Its guiding principles were the use of scientific research, the need to take "precautionary" action when scientific evidence was equivocal, and a desire to ensure "the polluter pays".

UK policy is now built on the 1990 Environmental Protection Act that coincided with the white paper, plus the 1989 Water Act, some 200 European Community directives, a handful of international pollution treaties, and last year's Rio conventions on biodiversity and global warming. A range of issues are covered – from air, water and land pollution, to local planning and promotion of worldwide "sustainable development".

But some expectations raised by Mr Patten and sustained by Mr Heseltine have been dashed. Mr Howard's report last autumn on the second anniversary of the white paper reveals an uneven record: water pollution and some industrial emissions have improved; traffic pollution and inner-city air quality are getting worse.

Central parts of the 1990 act have also been dropped or delayed:

- A proposed register of contaminated land has been scrapped as it threatened to cause property blight across much of the country;
- Tighter rules on landfill operators – managers of rubbish dumps – have been postponed until clashes with EC rules are ironed out.

Last year's election pledge to create an Environment Agency to centralise all pollution regulation has also given way to more politically pressing issues.

Environmentalists blame Mr Howard, a former barrister, for this retrenchment. But DoE officials argue that whoever had inherited the job of implementing the 1990 act would be forced to acknowledge that parts were ill-thought out.

The better-aimed criticism of Mr Howard is that he failed to address some of the deeper conflicts in the government's environment policy, which Mr Gummer now confronts.

First, many industries are forthright in warning him that greener does not always mean richer. The European Chemical Industry Council has argued strongly that bulk chemical manufacture is being driven outside the EC by the costs of complying with environmental regulation. UK manufacturers complain their costs will soar if the government backs recycling as a waste disposal method rather than landfill. Recycling has become a moral crusade for many parts of the environmental movement, but is the most expensive method of all.

Second, Mr Gummer must grapple with the problem of how to meet Britain's Rio commitments to cut emissions of carbon dioxide, one of the gases implicated in global warming. The targets, which would bring such emissions back to 1990 levels by 2000, a cut of 6 per cent on projected levels, seem certain to put Mr Gummer at odds with current energy and transport policies.

The government claims that it has put in place measures to take it two-thirds of the way to meeting Rio's targets. But economists, such as Oxford Economic Research Associates, have attacked a central plank of its stategy – the March Budget's new taxes on motor fuel and home heating. They say these will have little effect because demand for transport and for domestic heating is relatively insensitive to price.

Environmentalists fear that beyond 2000 the outlook is even gloomier – transport pollution looks particularly intractable given current plans for more roads. However, the government appears nervous about upsetting its supporters by higher road or energy taxes.

This autumn's review of nuclear power will be a test of the real importance accorded by the government to the Rio targets. If the review scales down nuclear power's long-term role in energy supply in favour of gas and other fossil fuels it will make cutting carbon emissions even harder.

Third, Mr Gummer must address the tensions in the UK's approach to international environment policy, which reflect the country's ambivalence about its role. His resistance this week to the imposition of an EC-wide energy tax indicates that he shares the government's caution over Brussels' influence. However, the UK is unlikely to want to be labelled a permanent dissenter, despite its concern over rising EC water standards, for instance.

Symptomatic of all the considerations about cost, energy policy and international co-ordination is the looming decision on the Thorp plant.

Mr Gummer, who holds pro-nuclear views, needs to show the government has addressed the wider political and economic questions raised by Thorp – including nuclear weapons proliferation – if he is to claim the UK is developing a coherent and far-sighted environment policy.

The choices facing Mr Gummer are not easy. They reflect underlying dilemmas over much of government policy, notably its uneasiness about its role in Europe, and over the fragility of its political support. The result of these conflicts is likely to be an untidy, pragmatic environment policy. Without a resurgence in public attention to green issues during economic recovery, however, departure from the spirit of the 1990 white paper is unlikely to give the government much political trouble.

The government cannot hope to satisfy all demands of the environmentalists. The danger is that, in turning away from its 1980s green evangelism, it will fail to act on the handful of issues that deserve to be at the centre of environmental policy. It may saddle businesses and households with unnecessarily high charges while failing to make enough polluters pay. It may fail to devise an energy policy, including a role for nuclear power, that gives it a real chance of meeting global warming targets. It may tolerate rising transport levels despite worsening inner-city air pollution. It may also fail to take a constructive part in the complex international debate about how to protect the environment. These are the priorities which stare Mr Gummer in the face. They demand a clear response.

No breath of fresh air

Increasing rates of asthma among British children could be one of the next environmental issues to provoke widespread public concern, environmentalists and government officials believe, writes Bronwen Maddox.

But, while many doctors believe that traffic pollution triggers asthma attacks in people who are already sufferers, medical opinion is divided about whether it can be blamed for the increase in the number of cases. The difficulty of proving which chemicals are responsible has not helped environmentalists to boost public awareness, some campaigners feel.

There are no national statistics of the number of asthma cases, and doctors warn that not all sufferers are diagnosed accurately. However, the National Asthma Campaign quotes research on small groups which suggests that about 10 per cent of schoolchildren have wheezing of some kind, and about 3 to 5 per cent of schoolchildren are diagnosed asthmatic. Other studies suggest about 2 to 5 per cent of adults are asthmatic, it adds.

Medical research in the past three years has also pointed to annual increases of 5 per cent between 1973 and 1986.

The puzzle of the rise in the number of asthma cases and in their severity is that it has occurred in the past few decades, when much industrial and domestic air pollution in Britain has been dropping because of tighter environmental rules. The Department of Health, which acknowledges that "asthma is an important problem", says only that the link with "air pollution is particularly complex and remains incompletely understood".

However, traffic pollution has been rising, and doctors are suggesting this may be the culprit. Professor Robert Davies of St Bartholomew's Hospital, London, a leading specialist in respiratory medicine, said last month that traffic fumes were under "very great suspicion" of triggering attacks.

The chemicals thought to be implicated are nitrogen oxide and dioxide, ozone and sulphur dioxide, and particles from diesel exhausts.

Friends of the Earth, the pressure group, and the National Asthma Campaign have urged better monitoring of roadside air pollution.

The DoH is now mounting further studies. Its committee on the medical effects of air pollutants is investigating the link between asthma and air pollution, under the chairmanship of Professor Ross Anderson, of St George's Hospital Medical School, and it expects to produce a report next year. The DoH is also funding a study on the health effects of the severe air pollution in London in December 1991, the worst episode of nitrogen dioxide ever recorded in the UK.

In the meantime, practising doctors have few qualms in telling patients at risk to stay away from busy London streets. Dr Stephen Durham, consultant physician specialising in allergies at the Royal Brompton Hospital, says "the balance of probability is in favour of pollution" as the cause "of both the increase in the number and worsening symptoms of asthma cases".

OBSERVER

Not so magic Circle

■ Mark Boleat – busy bee chief executive of the Building Societies Association just about to depart for an even bigger job at the Association of British Insurers – has earned a question mark on his otherwise unblemished report card. He may be jolly good at getting big ideas across but recent problems at one of the outfits under his command raise the question of whether he is over-stretching himself by taking on too many worthy outside jobs.

The question is prompted by the recent problems at Circle 33, one of Britain's biggest housing associations, which provides over 8,000 homes for low income families in the South East. Boleat has been associated with Circle 33 for 15 years and has been chairman since 1990. A combination of a police investigation into allegations of a long running fraud and concerns about internal monitoring procedures led to the Housing Corporation, the official regulator and lender of last resort, temporarily suspending its funding to Circle 33 earlier this month.

This is almost as bad as the Bank of England suspending a bank's licence and precipitated the departure of Circle 33's director, Melinda Phillips. The funding has been restored but the episode is embarrassing for Boleat since he was on the board of the Housing Corporation. He has now stepped down in order to devote more time to sorting out Circle 33 but has signalled that he will also resign the Circle 33 chairmanship after the annual meeting in September.

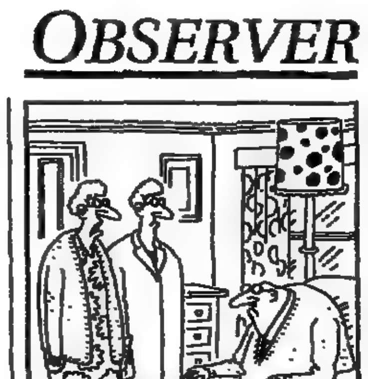
The problems at Circle 33 have highlighted a dilemma which faces an increasing number of busy executives who give up their time voluntarily for worthy causes. Can they spare enough hours to keep a proper eye on a complex organisation which spends around £75m a year? The days when rapidly growing housing associations like Circle 33 can be run by voluntary committees must be numbered.

Nuclear waste

■ Pst. Need a nuclear scientist in a hurry, no questions asked? Finland has the answer. The University of Helsinki's Research Institute for High Energy Physics has organised a three day conference next May to help find new sources of employment for nuclear scientists from the former Soviet Union. Factotum, a London conference firm, is organising the event. The sort of bash where one could pick up an out of work rocket scientist on the cheap?

Cannon fodder

■ What next for Devenish chairman Michael Cannon after he sells his chain of 550 west country pubs to Greenalls? He is



'Norman's very worried – his great great grandfather assassinated Lincoln'

showing a £26m profit on a business which started with a £30,000 investment in a Bristol pub in 1976. He could be forgiven for wanting to retire to the bar.

However, the diminutive and dapper Cannon has no intention of retiring at 54. He was one of the first to recognise that several pints of beer was not enough to satisfy changing consumer attitudes and has been leading the retailing revolution in Britain's pub trade.

"We became known for red lampshades and subdued lighting – but who wants to go to a pub and feel they're centre stage, under the spotlights, at the Hippodrome?" Like Marks & Spencer, Cannon has tried to stay a step ahead of rivals by offering customers something different. "You have to be better than the next pub, but you don't have to be much better to succeed." Let's hope, for Greenalls sake, that he doesn't desert to the opposition.

Eco Mania

■ Market Research knows no bounds. Now it is telling us which nations fall into which categories of concern for planetary well-being.

According to Research International, Americans, Canadians, Dutch and Germans are all "anxious experts" – they have strong preferences for environmentally friendly products.

"Negotiators" (British, French and Japanese) know about green issues but don't alter their behaviour to make room for them.

"Lip-service environmentalists" (no explanation necessary) are types like Argentines, Italians and Portuguese. Colombians and South Africans are "passive environmentalists" still deeply into consumerism, no matter how bad for the environment. Brazilians, Nigerians and Indians – "Spectators" – don't give two hoots.

Healeyocentric

■ We all knew about the creative side of Lord Healey, the former Labour Chancellor of the Exchequer, who takes good photos and tinkles the ivories when the politics gets too boring, but his 44-year-old son has gone one better.

A reggae song-writer and publisher of children books, Tim has just brought out his first compact disc, The Oxford Ramble, on under his own Beautiful Jo record label. A student at Balliol, Healey junior had been impressed by the pub music of the area and put together a band, Magpie Lane, to strum through the repertoire. There are plans for other albums too - The Cotswold Ramble, Bodleian Ballads, you get the picture.

To promote the initial number, the idea is to persuade Healey *père* to come to Oxford to join in some morris dancing....

Loose connection

■ "How's the work going?", Lancaster University's professor of economics Jim Taylor asked a colleague struggling to meet a deadline. The FT man replied that, as usual, he was finding it hard to write words that made sense. "Oh no," said the professor. "Every single word you write makes perfect sense to me. It's the way you put them together that's confusing."

Yankee doodles

■ The printed invitation to Democrats Abroad's 4th of July picnic in London has been amended by hand from July 9th to the correct date.

FINANCIAL TIMES
Wednesday June 30 1993

Attorney-general rules out independent inquiry into MP's allegations

Mates accuses investigators on handling of Nadir fraud case

By Philip Stephens and Jimmy Burns in London

UK Member of Parliament Mr Michael Mates yesterday made a series of sensational charges against the Serious Fraud Office's handling of the case of Mr Asil Nadir, the fugitive Turkish Cypriot businessman.

However, Sir Nicholas Lyell, the British attorney general, last night ruled out an independent inquiry into the SFO.

In a resignation speech to MPs that alternately captivated and perplexed them and prompted angry interruptions from the Speaker, Mr Mates accused the SFO of a campaign to undermine the defence of the head of the Polly Peck empire.

Mr Mates, speaking five days after his enforced resignation as Northern Ireland minister because of his connections with Mr Nadir, said the SFO had sought to put "improper pressure" on the judge hearing the case.

It had tried to engineer through judicious leaks a "trial by media" of Mr Nadir, he said. It had also colluded illegally with the Inland Revenue and had misused privileged legal documents.

The main charges made by Mr Mates were immediately rejected by Sir Nicholas. He said his office had "carefully and dispassionately" investigated allegations made by the former minister since he took up the case in 1991.

Some had proved to have no substance. Others had contained some "underlying facts" but his office was satisfied that in such cases there was a "reasonable explanation". In those circumstances he saw no reason for an inquiry.

Sir Nicholas was last night considering whether publication of his extensive correspondence with Mr Mates would prejudice any future trial. He was also preparing for the possibility later today of a statement in the House of Commons. But it was made clear that his previous rebuttals had covered all the substantive points made by Mr Mates.

His office said: "If Mr Mates's statement is found to raise any new points, these will also be carefully and dispassionately examined. The attorney general is considering how far it is appropriate for him to make further comment in the light of the continuing court proceedings."

There was no immediate public reaction from the SFO. But just before Mr Mates's statement Mr George Staple, the SFO's director, said his officers had acted "entirely properly" throughout the investigation. He also denied that his office had been involved in any leaks which could have led to the resignation of Mr Mates.

The allegations brought a mixed response from MPs. Labour called for a statement by the attorney general, but refused to back Mr Mates's call for an inquiry. Some Conservative MPs said his allegations deserved investigation but others privately accused the minister of too readily accepting the case of a fugitive from justice.

Mr Mates stated at the outset of his 30-minute speech that he was making no judgment as to whether Mr Nadir was guilty or innocent of the charges which precipitated the fall of Polly Peck International. He stressed that he had done nothing wrong in presenting the evidence to the attorney general and that he had no criticism to make of Mr John Major or the government.

His detailed exposition of his involvement in the case brought several warnings from Miss Betty Boothroyd, the Speaker, that he risked prejudicing any future trial if Mr Nadir returned to Britain.

France may ban German waste imports

By David Gardner in Luxembourg

FRANCE yesterday threatened to curb imports of German packaging waste flooding into the country for recycling, as a result of Germany's ambitious recycling legislation.

The warning came as European Community environment ministers discussed the Commission's stalled packaging directive, which nearly all want to see passed into law quickly to avoid the market distortions that states like Germany create by going it alone.

France, Britain, Spain, Italy, the Netherlands, the Republic of Ireland and Luxembourg all complain that their own infant recycling industries for plastics, paper and board are stifled by the weight of German waste exports, which are often subsidised.

Germany does not have the capacity to process the amounts of packaging its laws require to be recycled.

Mr Michel Barnier, the French environment minister, said an EC-wide solution to such waste flows was urgently needed. But if Bonn could not reach a bilateral solution with Paris within "a few weeks" the situation "could require import authorisations for these products".

Officials from several member states expressed anger yesterday at the slow progress of the EC packaging directive, to which the outgoing Danish presidency has devoted only a half-day's working group. The acrimony over waste was compounded by the continuing row over the proposed EC energy tax, aimed at cutting greenhouse gas emissions.

On Monday night the UK accused the Danish presidency of "a cack-handed ambush" intended to isolate Britain by getting its 11 partners to agree that the tax is a precondition for the EC to ratify the Rio climate change convention, due by December.

At German and Dutch insistence, agreement on ratification – originally due to go through on the nod – was taken off yesterday's agenda. Ms Magda de Galan, environment minister of Belgium which takes over the EC presidency tomorrow, said she would insist on maintaining the link between the tax and ratification of Rio.

These three countries, along with Italy, Denmark and Luxembourg, in effect signed up to the energy tax in March by declaring that the EC's Rio commitments – to stabilise carbon dioxide emissions at 1990 levels by 2000 – were not possible without it. The other six, led by the UK and France, deplored what could now be a long delay in ratification.

Utilities' chance to clean up, Page 12

IG Metall to take firm line on members' shareholdings

By Quentin Peel in Bonn

OFFICIALS in IG Metall, Germany's most powerful union, are to be banned from owning shares in German companies on whose supervisory boards they sit.

The action is an attempt to reassure union members after the scandal in which Mr Franz Steinkühler was forced to resign as its leader for alleged insider dealing in shares in a Daimler-Benz holding company.

However, the union's full-time executives have deliberately not agreed to instruct their members to sign companies' codes of conduct, designed to counter insider dealing. Germany has no law forbidding insider dealing, although a draft is being prepared.

Mr Klaus Zwickel, the man nominated to take over the union leadership, said: "We are making our own insider rules. We don't need any which the employers make. The people who we propose to become members of supervisory boards should be responsible to our members and not to the employers."

The new rule was agreed by the full-time union executive of the engineering workers' union on Monday and will be submitted for formal approval by the full national executive, which meets in two weeks' time. It reflects the puritan instincts of Mr Zwickel, previously Mr Steinkühler's deputy. He owns no shares in either BMW or Mannesmann, on whose supervisory boards he sits under Germany's system of worker participation.

It has not been decided how long union officials will have until they must sell their shares. The one exception will be shares issued under employee-participation schemes to those worker representatives on supervisory boards who are also employees.

"We have nothing against such shares," a union official said. With its decision, the union leadership clearly hopes to distance itself from the taint of scandal associated with Mr Steinkühler. He resigned last month after it was disclosed that he had bought shares worth DM1m ($600m) in MAH, the holding company set up by Daimler, on whose supervisory board he sits. Shortly afterwards, the board decided to exchange MAH shares for full Daimler shares, causing a sharp rise in their stock exchange price.

Murdoch TV deal faces collapse

Continued from Page 1

If Mr Murdoch is unable to devise a scheme to get around Hong Kong regulation then this will be the second time this year that he has failed to break into Asia's broadcasting industry.

Earlier this year he is believed to have offered Star Television, which is owned by Mr Li Ka-shing, US$250m for up to half of the satellite network. Media executives said this was regarded as an insulting offer by Mr Li and rejected out of hand.

TVB recently formed a consortium to enter satellite broadcasting in Asia. Its partners include Turner Broadcasting, Home Box Office, and Entertainment Sports Programming Network, and they plan to lease satellite space on an Indonesian-owned satellite.

THE LEX COLUMN

Competing calls

FT-SE Index: 2886.0 (-11.0)

A 10p discount on a share flotation is not normally the kind of sum which starts the stags rutting. But at least private investors who apply in the BT3 offer will get the 9.5p final dividend if they hang on until mid-August. Taken together the two incentives give private investors an effective 13 per cent discount on the 150p first instalment. A first year yield of over 20 per cent will probably also tempt building society depositors to ignore the capital risks. The retail offer will thus probably be a modest success.

Assuming that those private investors tend to hang on to their shares, institutions will find themselves even more underweight in BT. Along with the company's remarkable cash generation that ought to ensure good institutional demand both before and after the issue. Indeed, BT seems so well underpinned in the short term that the Treasury's paranoia over a run on the shares is hard to understand.

The real threats to BT's cash machine come from continuing regulatory risk and increasing competition. An agreement on pricing is due to run until 1997. And while investigations into special offers and Yellow Pages would be a nuisance, they seem unlikely to wreak wholesale destruction.

Competitive erosion of BT's market share is the larger worry. At present it looks glacial, but it may speed up as Mercury expands and other competitors enter the market. The chancellor's apparent support in principle for AT&T's licence application yesterday is thus interesting. If the government is singing the praises of competitive pressures while trying to unload £5bn-worth of BT shares, what will it do afterwards?

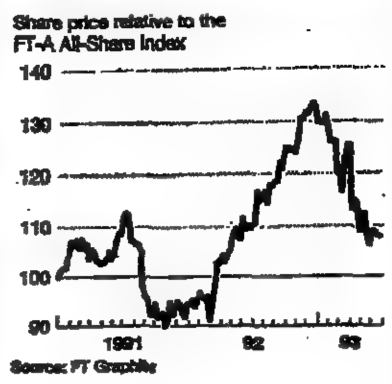
United Newspapers

It is hard to comprehend why a company with interest cover approaching six times needs to tap shareholders for an additional £190m to fund expansion. United's balance sheet gearing of 180 per cent partly explains it. But that gearing level reflects the thinness of United's shareholders' funds – at just £168m – rather than the crushing weight of borrowings. Like other newspaper companies, United's assets are mostly intangible.

Moreover, the issue will dilute earnings this year given that the money will initially be used to repay cheap borrowings in the UK and US. United may have done better simply to sit back and reap the rewards of its £700m

BAT Industries

Share price relative to the FT-A All-Share Index



Source: FT Graphite

investment programme. Given the scale of its operational gearing, profits should certainly swing up sharply when advertising volumes recover. Every additional £1 of revenue in United's business magazine division, for example, translates into 65p of profit.

The 62 per cent rise in United's share price since September may have provided the main spur for the fund-raising. Few managements can resist such overt temptations – as the property sector has conclusively proved. Shareholders may not begrudge United its opportunism if it really can find suitable earnings-enhancing acquisitions.

The company's record on this front, though, is patchy. The company may also have missed the floor for asset prices in the US, where it appears most interested. If United really needs the money, Lord Stevens, its chairman, should spell out precisely how he plans to spend it.

Granada/LWT

All kinds of entertaining theories can be advanced for Granada's decision to buy a 15 per cent chunk of LWT at a big premium to the market price. The most dull, and least plausible, is that it is merely a passive trade investment. A more racy plot line suggests that Granada's nose was put badly out of joint by LWT's cheeky acquisition of a 14 per cent stake in Yorkshire-Tyne Tees; the bruised suitor is now seeking greater leverage to prise its prey free. The more uncertain truth, though, may be that no one has the faintest idea how far the government will relax the rules surrounding multiple franchise ownership next year. The big TV companies are simply piling up all the bargaining chips they can in advance. Cross-shareholdings are now rapidly multiplying. A grand asset swap may yet represent the industry's end-game.

Alongside Carlton Communications, Granada is shaping up to be one of the dominant players in the industry. A future Granada/LWT grouping would certainly represent a powerful force in ITV, accounting for about 23 per cent of the network's total revenue. The shares of other ITV contractors have shot up in anticipation of industry consolidation. Far from settling the future shape of the ITV network, the government's franchise auctions may only have proved a temporary staging post.

BAT Industries

Smoke must be getting into someone's eyes at BAT. The first part of yesterday's statement dealt at length with the reshuffle of its European brands; the second, which came as a fleeting postscript, with developments on the US market since Philip Morris escalated the cigarette price war in April. Yet that has a more significant bearing on BAT's prospects and unfortunately the news is bad. Not only has Kool, a premium menthol brand which was not supposed to be in Philip Morris's sights, suffered from discounting. The process, which will lead to a $75m stock adjustment loss in the first half, was evidently well under way before Philip Morris struck.

The implication is that the price war will be bloodier than many at first supposed. BAT will have to sit it out until its larger brethren decide to call a halt. The risk is that, by then, the government will have increased the tax on cigarettes to pay for its health-care reforms. Margins could thus remain under pressure for years to come.

The European exchange with American Brands will hardly compensate, despite the striking £135m pre-tax gain for 1993. Nearly half of that represents profit borrowed from future years. The most that can be said is that BAT appears to have won itself a good financial deal which also makes marketing sense, perhaps because American Brands was prepared to pay up for control of Benson & Hedges throughout the European single market. At 422p the shares are underpinned by a yield of 5.5 per cent, but yesterday's fall was a reminder that they remain vulnerable to bad news from the US.

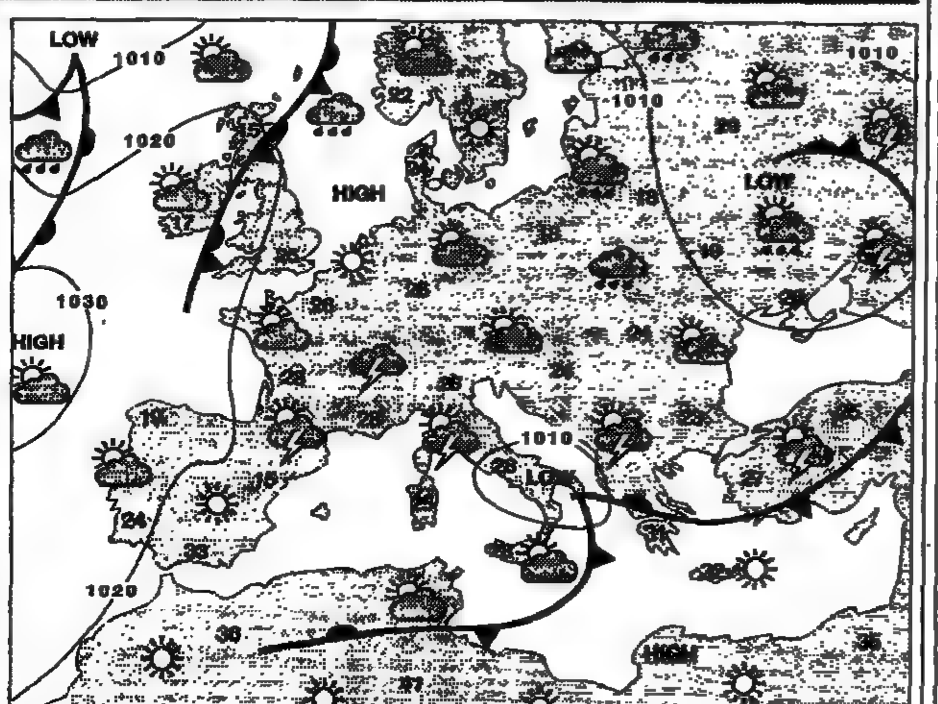
FT WORLD WEATHER

Europe today

A ridge of high pressure over the North Sea will bring calm conditions and sunny periods in the surrounding countries. Afternoon temperatures rise well above 20C. Over the western and northern parts of the British Isles outbreaks of light rain or a shower are likely. A disturbance over Italy and the south of France will trigger thunder showers, giving significant amounts of precipitation especially south of the Alps. Showers will develop over the very north of Spain as well, sometimes accompanied by thunder. Inland and along the Mediterranean coasts temperatures meet tropical values. In West- Tukey some showers will develop. Relatively cool and showery conditions prevail over Poland, White Russia and the Ukraine.

Five-day forecast

Conditions will become more and more unsettled over the North Sea countries and Scandinavia. Winds will turn to the west and increase significantly. The thunder activity over France will decrease within a few days and die out by the weekend. Sun and tropical heat will continue to dominate within the Mediterranean area. Sunny periods and scattered afternoon showers will alternate in the southeast of Europe.



TODAY'S TEMPERATURES

Forecasts by Meteo Consult of the Netherlands

		Maximum Celsius
Abu Dhabi	sun	40
Accra	shower	29
Algiers	sun	32
Amsterdam	sun	23
Athens	fair	30
Bangkok	thund	35
Barcelona	shower	26
Beijing	cloudy	28
Belfast	drzzl	18
Belgrade	fair	25
Berlin	fair	23
Bermuda	shower	27
Birmingham	fair	23
Bogota	fair	19
Bombay	shower	32
Bordeaux	thund	24
Brussels	sun	25
Budapest	fair	23
Buenos Aires	fair	16
Cairo	sun	36
Cape Town	fair	23
Caracas	fair	27
Chicago	thund	26
Cologne	sun	26
Copenhagen	fair	21
D' Salaam	fair	27
Dakar	fair	30
Dallas	fair	36
Darwin	fair	32
Delhi	fair	36
Dubai	sun	40
Dublin	drzzl	19
Dubrovnik	sun	29
Edinburgh	cloudy	18
Faro	sun	28
Frankfurt	sun	27
Geneva	thund	25
Glasgow	cloudy	19
Hamburg	sun	22
Helsinki	cloudy	19
Hong Kong	shower	32
Honolulu	fair	31
Isle of Man	drzzl	17
Istanbul	fair	24
Jersey	fair	19
Karachi	cloudy	34
Kuwait	sun	45
La Paz	sun	17
Las Palmas	fair	25
Lisbon	sun	24
London	sun	23
Los Angeles	sun	26
Luxembourg	sun	25
Lyon	thund	24
Madeira	fair	23
Madrid	fair	30
Majorca	fair	30
Malta	sun	32
Manchester	drzzl	21
Manila	shower	32
Melbourne	fair	14
Mexico City	shower	23
Miami	thund	32
Milan	thund	28
Montreal	fair	22
Moscow	fair	21
Munich	fair	24
Nairobi	shower	22
Naples	fair	28
Nassau	shower	31
New York	fair	28
Nice	shower	25
Nicosia	sun	33
Oslo	fair	24
Paris	shower	25
Perth	fair	19
Prague	fair	22
R' de Janeiro	fair	24
Rangoon	fair	31
Reykjavik	rain	12
Riyadh	sun	43
Rome	shower	29
S' Francisco	sun	24
Seoul	shower	26
Singapore	cloudy	29
Stockholm	fair	20
Strasbourg	fair	26
Sydney	shower	16
Tel Aviv	sun	30
Tokyo	rain	24
Toronto	fair	22
Tunis	fair	33
Vancouver	shower	21
Venice	fair	27
Vienna	fair	24
Warsaw	shower	19
Washington	cloudy	29
Wellington	fair	8
Winnipeg	shower	25
Zurich	shower	25

هكذا من الأصل

FINANCIAL TIMES
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Wednesday June 30 1993

Back Nafta now or lose it

SUPPORTERS IN the US of the North American Free Trade Agreement are belatedly waking up to the possibility that the accord may fail to pass Congress. Unless they do something about it soon, the treaty may be lost.

The agreement's motley group of opponents has been allowed to dominate a debate in which the soundbite has counted for more than cool assessment. Americans have heard a lot of the "sucking sound" of US jobs heading south of the border if the agreement goes ahead but little about the jobs that are being created by the development of Mexico as the fastest growing market for US goods.

US exports to Mexico expanded to $44bn last year. If, as is commonly supposed, each $1bn of US exports is worth 20,000 US jobs, the Mexican market – growing in part because of the prospect of a free trade agreement – has been responsible for the creation of nearly 500,000 US jobs in the past few years.

There will, of course, be losers in the US jobs market as well as winners. But rejecting the agreement will not save American jobs, it will simply increase the chances of lower-skill jobs migrating to lower-wage economies beyond Mexico, for example in Asia.

From the standpoint of the US economy, better those jobs move to Mexico than to the hungry economies of east Asia: for every dollar Mexicans spend abroad on foreign goods, 75 cents is spent in the US, a much higher ratio than any Asian country.

Capital flows

Rejecting Nafta would sharply reduce capital flows into Mexico and probably trigger a devaluation. This would disrupt Mexico's economic prospects and reduce US exports to Mexico.

Worse, the impact of the treaty's rejection on the Mexican political system would be regressive. While the administration of President Carlos Salinas would probably not shoot itself in the foot by reverting to economic populism, there would be little incentive to continue with political reform and the US would have lost its influence in the process.

The US would be seen instead as having spurned the outstretched Mexican hand. A nationalist backlash could follow. While the dinosaurs of the ruling party would not be unopposed, they could emerge from the shadows, armed with anti-gringo rhetoric, to lead the party into the August 1994 presidential election.

The US would face once more a suspicious neighbour to the south and the historic advances in US-Mexican relations over the past 10 years would be damaged. Moreover, the Clinton administration would find it difficult to forge a constructive foreign policy in Latin America. For the region's governments, there would be no more potent symbol of US attitudes than a rejection of Nafta.

Stumbling blocks

As many Nafta critics point out, Mexico is far from being an open democratic society in which the rule of law is paramount. This is bound to lead to tensions within Nafta. Yet if these critics sincerely desire an improvement in the way Mexico is governed, then that is surely not to be achieved by estranging Mexico from the US.

There is a further stumbling block: the supplementary accords now being negotiated on labour and environmental standards. Because of the implications of these understandings on US sovereignty, they are of largely symbolic value. As such, they should not be allowed to block passage of the treaty.

It will not be easy to persuade a Congress, with 110 new representatives and 34 new senators who above all desire re-election, to vote in favour of a deal which, in the popular perception, will cost US jobs. Convincing them of its advantages cannot be left to the Mexican government and a handful of US politicians. Those US businesses and trade unions which stand to benefit need to engage more vigorously in pressing the case for Nafta.

Mr Clinton and his cabinet have at last begun themselves to lobby publicly for the agreement, but they should not wait until the supplementary accords are completed before beginning the campaign in earnest. Many of President Clinton's critics are looking for signs that he can decide on a course of action and push it through to a conclusion. Nafta is an important test.

Second best pensions

IN BRITAIN, as in continental Europe, public finances have been deteriorating and the population is ageing. Political reality thus dictates that pension provision will be undertaken increasingly by the private sector in the decades ahead. Against that background the National Association of Pension Funds' call for a national debate on meeting the financial needs of the elderly is all to the good. But the pensions lobbyists have slightly spoiled their case by suggesting, before the debate has even begun, that the answer lies in the current approach to occupational pensions. This is not self-evident; and the NAPF's campaign may anyway have come too late.

If occupational pensions have become a £350bn-plus business in Britain, it is because governments have provided tax relief for pension contributions, while employers have been prepared to remunerate employees in a tax-efficient form. The political tide has long since turned against such pension fund paternalism. Tax reliefs for pension contributions are under attack by the backdoor, the latest instance being the reduction in tax credits on UK dividends. Personal pensions, meantime, have been expensively promoted.

On the employer side it now seems questionable, with unemployment at record levels, whether companies need to enter the financial services business to compete in the labour market for employees. Having enjoyed pension fund holidays when investment returns were high, employers will think twice about taking on big commitments to new employees now that the pension fund surpluses are eroding. The temptation to limit the company's financial obligation by switching to defined contribution schemes, which simply pay out what the contributors put in, together with the investment return on the money, must be strong. It could become stronger if the Goode committee on pension law adds to the burden on companies.

Older workers

At first sight, a switch to defined contributions might seem no bad thing. Employees might be able to exercise some control over their deferred pay, since the company would not be underwriting the solvency of the fund and thus wanting control as a *quid pro quo*. Many of the cross-subsidies that mar the workings of defined benefit schemes, which favour long stayers against the mobile or the redundant, and the low paid against the high paid, would be eliminated.

Equally important, defined contribution schemes do not incorporate an incentive to sack older workers, in contrast with the existing system which has probably made a significant contribution to long-term unemployment because the cost of funding an individual's pension tends to rise towards retirement. Also, ownership rights can readily be identified and valued.

Arbitrary level

But there are snags with defined contribution schemes, not least the arbitrary level of the pension received. Retiring in one week rather than another in October 1987, when global stock markets crashed, would have dramatically affected a pensioner's living standards. Because of the need to diversify against such volatility, fund managers are forced to adopt a lower-risk, and thus lower-reward, investment policy. And if the defined contribution scheme takes the form of a personal pension, costs can be absurdly high.

It would be dangerous to underestimate the staying power of defined benefit schemes, not least because the biggest beneficiaries tend to be the bosses, many of whom have shamelessly manipulated pre-retirement salaries to boost their pensions. It may be that, as with Churchill's celebrated verdict on democracy, they are the worst form of private pension provision, apart from all the others. But in the absence of authoritative data to establish who loses how much from each type of system on a range of assumptions about employee mobility and investment returns, the proponents of the status quo will find it hard to beat off an alternative that is transparent, much less prone to conflicts of interest and far more healthy for labour mobility and employment. The challenge for the pensions lobby is to come up with convincing numbers and facts. Assertions will not be enough.

The world on his shoulders

John Gummer must choose between urgent priorities at the environment department writes **Bronwen Maddox**

Mr John Gummer has inherited a long list of tough choices as UK environment secretary as well as unresolved battles with other government departments. After a month in the job, there are questions about whether he has the clout in the cabinet to meet the challenge.

The government's announcement this week that it is holding a further public consultation on the future of Thorp, the £2.8bn nuclear reprocessing plant at Sellafield, has delayed a final decision on that thorny question until autumn. Mr Gummer is responsible for the eventual decision, however, and the awarding of a licence to the plant, as seems likely, will earn him the opposition of environmental groups.

A year after the Rio Earth Summit, he must also find a credible way for the UK to meet its targets on global warming, which Mr John Major, the prime minister, has said is a national environmental priority. This week found Mr Gummer at odds with his European counterparts, whom he accused of trying to ambush the UK over a proposed energy tax to curb emissions of so-called greenhouse gases.

The most complex question Mr Gummer must address is whether the UK – and other industrial countries which have signed international "green" treaties – can afford the ambitious environmental policies they have designed over the past two decades. As recession has increased awareness of the costs of going green, the environment has slipped on the UK political agenda.

Mr Gummer built up some green credentials as agriculture minister, mainly for his opposition to commercial whaling. But pressure groups remain wary of his appointment, feeling he kept silent on controversial issues, such as agricultural contamination of rivers.

They are concerned, too, that his appointment signals a downgrading of environmental issues in the Cabinet. To many environmentalists, Mr Gummer is a lightweight against his predecessors – Mr Chris Patten, Mr Michael Heseltine and Mr Michael Howard, now home secretary.

Concern about Mr Gummer's priorities is warranted because he takes over at a critical point in the development of the UK's environment policy, when it is widely accused – by other governments, environmentalists and industrialists – of being patchy and incoherent.

It is barely five years since the UK began seriously to develop an environment policy. The turning point was Mrs Thatcher's apparently overnight conversion to green issues when she told a startled Royal Society that scientists should worry more about global warming. The government's belief that there was political capital in the environment was strengthened the next year when the Green party grabbed 15 per cent of the vote in the 1989 European elections.

The white paper drawn up by Mr Chris Patten in 1990, This Common Inheritance, is one of the government's most ambitious attempts to design a policy. It declared an "intense hope that we can pass on what we value most about our heritage to our children". Its guiding principles were the use of scientific research, the need to take "precautionary" action when scientific evidence was equivocal, and a desire to ensure "the polluter pays".

UK policy is now built on the 1990 Environmental Protection Act that coincided with the white paper, plus the 1989 Water Act, some 200 European Community directives, a handful of international pollution treaties, and last year's Rio conventions on biodiversity and global warming. A range of issues are covered – from air, water and land pollution, to local planning and promotion of worldwide "sustainable development".

But some expectations raised by Mr Patten and sustained by Mr Heseltine have been dashed. Mr Howard's report last autumn on the second anniversary of the white paper reveals an uneven record: water pollution and some industrial emissions have improved; traffic pollution and inner-city air quality are getting worse.

Central parts of the 1990 act have also been dropped or delayed:

- A proposed register of contaminated land has been scrapped as it threatened to cause property blight across much of the country;
- Tighter rules on landfill operators – managers of rubbish dumps – have been postponed until clashes with EC rules are ironed out.

Last year's election pledge to create an Environment Agency to centralise all pollution regulation has also given way to more politically pressing issues.

Environmentalists blame Mr Howard, a former barrister, for this retrenchment. But DoE officials argue that whoever had inherited the job of implementing the 1990 act would be forced to acknowledge that parts were ill-thought out.

The better-aimed criticism of Mr Howard is that he failed to address some of the deeper conflicts in the government's environment policy, which Mr Gummer now confronts.

First, many industries are forthright in warning him that greener does not always mean richer. The European Chemical Industry Council has argued strongly that bulk chemical manufacture is being driven outside the EC by the costs of complying with environmental regulation. UK manufacturers complain their costs will soar if the government backs recycling as a waste disposal method rather than landfill. Recycling has become a moral crusade for many parts of the environmental movement, but is the most expensive method of all.

Second, Mr Gummer must grapple with the problem of how to meet Britain's Rio commitments to cut emissions of carbon dioxide, one of the gases implicated in global warming. The targets, which would bring such emissions back to 1990 levels by 2000, a cut of 6 per cent on projected levels, seem certain to put Mr Gummer at odds with current energy and transport policies.

The government claims that it has put in place measures to take it two-thirds of the way to meeting Rio's targets. But economists, such as Oxford Economic Research Associates, have attacked a central plank of its stategy – the March Budget's new taxes on motor fuel and home heating. They say these will have little effect because demand for transport and for domestic heating is relatively insensitive to price.

Environmentalists fear that beyond 2000 the outlook is even gloomier – transport pollution looks particularly intractable given current plans for more roads. However, the government appears nervous about upsetting its supporters by higher road or energy taxes.

This autumn's review of nuclear power will be a test of the real importance accorded by the government to the Rio targets. If the review scales down nuclear power's long-term role in energy supply in favour of gas and other fossil fuels it will make cutting carbon emissions even harder.

Third, Mr Gummer must address the tensions in the UK's approach to international environment policy, which reflect the country's ambivalence about its role. His resistance this week to the imposition of an EC-wide energy tax indicates that he shares the government's caution over Brussels' influence. However, the UK is unlikely to want to be labelled a permanent dissenter, despite its concern over rising EC water standards, for instance.

Symptomatic of all the considerations about cost, energy policy and international co-ordination is the looming decision on the Thorp plant.

Mr Gummer, who holds pro-nuclear views, needs to show the government has addressed the wider political and economic questions raised by Thorp – including nuclear weapons proliferation – if he is to claim the UK is developing a coherent and far-sighted environment policy.

The choices facing Mr Gummer are not easy. They reflect underlying dilemmas over much of government policy, notably its uneasiness about its role in Europe, and over the fragility of its political support. The result of these conflicts is likely to be an untidy, pragmatic environment policy. Without a resurgence in public attention to green issues during economic recovery, however, departure from the spirit of the 1990 white paper is unlikely to give the government much political trouble.

The government cannot hope to satisfy all demands of the environmentalists. The danger is that, in turning away from its 1980s green evangelism, it will fail to act on the handful of issues that deserve to be at the centre of environmental policy. It may saddle businesses and households with unnecessarily high charges while failing to make enough polluters pay. It may fail to devise an energy policy, including a role for nuclear power, that gives it a real chance of meeting global warming targets. It may tolerate rising transport levels despite worsening inner-city air pollution. It may also fail to take a constructive part in the complex international debate about how to protect the environment. These are the priorities which stare Mr Gummer in the face. They demand a clear response.

No breath of fresh air

Increasing rates of asthma among British children could be one of the next environmental issues to provoke widespread public concern, environmentalists and government officials believe, writes Bronwen Maddox.

But, while many doctors believe that traffic pollution triggers asthma attacks in people who are already sufferers, medical opinion is divided about whether it can be blamed for the increase in the number of cases. The difficulty of proving which chemicals are responsible has not helped environmentalists to boost public awareness, some campaigners feel.

There are no national statistics of the number of asthma cases, and doctors warn that not all sufferers are diagnosed accurately. However, the National Asthma Campaign quotes research on small groups which suggests that about 10 per cent of schoolchildren have wheezing of some kind, and about 3 to 5 per cent of schoolchildren are diagnosed asthmatic. Other studies suggest about 2 to 5 per cent of adults are asthmatic, it adds.

Medical research in the past three years has also pointed to annual increases of 5 per cent between 1973 and 1986.

The puzzle of the rise in the number of asthma cases and in their severity is that it has occurred in the past few decades, when much industrial and domestic air pollution in Britain has been dropping because of tighter environmental rules. The Department of Health, which acknowledges that "asthma is an important problem", says only that the link with "air pollution is particularly complex and remains incompletely understood".

However, traffic pollution has been rising, and doctors are suggesting this may be the culprit. Professor Robert Davies of St Bartholomew's Hospital, London, a leading specialist in respiratory medicine, said last month that traffic fumes were under "very great suspicion" of triggering attacks.

The chemicals thought to be implicated are nitrogen oxide and dioxide, ozone and sulphur dioxide, and particles from diesel exhausts.

Friends of the Earth, the pressure group, and the National Asthma Campaign have urged better monitoring of roadside air pollution.

The DoH is now mounting further studies. Its committee on the medical effects of air pollutants is investigating the link between asthma and air pollution, under the chairmanship of Professor Ross Anderson, of St George's Hospital Medical School, and it expects to produce a report next year. The DoH is also funding a study on the health effects of the severe air pollution in London in December 1991, the worst episode of nitrogen dioxide ever recorded in the UK.

In the meantime, practising doctors have few qualms in telling patients at risk to stay away from busy London streets. Dr Stephen Durham, consultant physician specialising in allergies at the Royal Brompton Hospital, says "the balance of probability is in favour of pollution" as the cause "of both the increase in the number and worsening symptoms of asthma cases".

OBSERVER

Not so magic Circle

■ Mark Boleat – busy bee chief executive of the Building Societies Association just about to depart for an even bigger job at the Association of British Insurers – has earned a question mark on his otherwise unblemished report card. He may be jolly good at getting big ideas across but recent problems at one of the outfits under his command raise the question of whether he is over-stretching himself by taking on too many worthy outside jobs.

The question is prompted by the recent problems at Circle 33, one of Britain's biggest housing associations, which provides over 8,000 homes for low income families in the South East. Boleat has been associated with Circle 33 for 15 years and has been chairman since 1990. A combination of a police investigation into allegations of a long running fraud and concerns about internal monitoring procedures led to the Housing Corporation, the official regulator and lender of last resort, temporarily suspending its funding to Circle 33 earlier this month.

This is almost as bad as the Bank of England suspending a bank's licence and precipitated the departure of Circle 33's director, Melinda Phillips. The funding has been restored but the episode is embarrassing for Boleat since he was on the board of the Housing Corporation. He has now stepped down in order to devote more time to sorting out Circle 33 but has signalled that he will also resign the Circle 33 chairmanship after the annual meeting in September.

The problems at Circle 33 have highlighted a dilemma which faces an increasing number of busy executives who give up their time voluntarily for worthy causes. Can they spare enough hours to keep a proper eye on a complex organisation which spends around £75m a year? The days when rapidly growing housing associations like Circle 33 can be run by voluntary committees must be numbered.

Nuclear waste

■ Pst. Need a nuclear scientist in a hurry, no questions asked? Finland has the answer. The University of Helsinki's Research Institute for High Energy Physics has organised a three day conference next May to help find new sources of employment for nuclear scientists from the former Soviet Union. Factotum, a London conference firm, is organising the event. The sort of bash where one could pick up an out of work rocket scientist on the cheap?

Cannon fodder

■ What next for Devenish chairman Michael Cannon after he sells his chain of 550 west country pubs to Greenalls? He is showing a £26m profit on a business which started with a £30,000 investment in a Bristol pub in 1976. He could be forgiven for wanting to retire to the bar.

However, the diminutive and dapper Cannon has no intention of retiring at 54. He was one of the first to recognise that several pints of beer was not enough to satisfy changing consumer attitudes and has been leading the retailing revolution in Britain's pub trade.

"We became known for red lampshades and subdued lighting – but who wants to go to a pub and feel they're centre stage, under the spotlights, at the Hippodrome?" Like Marks & Spencer, Cannon has tried to stay a step ahead of rivals by offering customers something different. "You have to be better than the next pub, but you don't have to be much better to succeed." Let's hope, for Greenalls sake, that he doesn't desert to the opposition.

'Norman's very worried – his great great grandfather assassinated Lincoln'

Eco Mania

■ Market Research knows no bounds. Now it is telling us which nations fall into which categories of concern for planetary well-being.

According to Research International, Americans, Canadians, Dutch and Germans are all "anxious experts" – they have strong preferences for environmentally friendly products.

"Negotiators" (British, French and Japanese) know about green issues but don't alter their behaviour to make room for them.

"Lip-service environmentalists" (no explanation necessary) are types like Argentines, Italians and Portuguese. Colombians and South Africans are "passive environmentalists" still deeply into consumerism, no matter how bad for the environment. Brazilians, Nigerians and Indians – "Spectators" – don't give two hoots.

Healeyocentric

■ We all knew about the creative side of Lord Healey, the former Labour Chancellor of the Exchequer, who takes good photos and tinkles the ivories when the politics gets too boring, but his 44-year-old son has gone one better.

A reggae song-writer and publisher of children books, Tim has just brought out his first compact disc, The Oxford *Ramble*, on under his own Beautiful Jo record label. A student at Balliol, Healey junior had been impressed by the pub music of the area and put together a band, Magpie Lane, to strum through the repertoire. There are plans for other albums too - The Cotswold Ramble, Bodleian Ballads, you get the picture.

To promote the initial number, the idea is to persuade Healey *père* to come to Oxford to join in some morris dancing....

Loose connection

■ "How's the work going?", Lancaster University's professor of economics Jim Taylor asked a colleague struggling to meet a deadline. The FT man replied that, as usual, he was finding it hard to write words that made sense. "Oh no," said the professor. "Every single word you write makes perfect sense to me. It's the way you put them together that's confusing."

Yankee doodles

■ The printed invitation to Democrats Abroad's 4th of July picnic in London has been amended by hand from July 9th to the correct date.

FINANCIAL TIMES
COMPANIES & MARKETS
Wednesday June 30 1993

INSIDE

Commerzbank buys French bank

Commerzbank, Germany's third largest private sector commercial bank, is diversifying into the French asset management market with the acquisition of Caisse Centrale de Réescompte, a bank owned by Groupe Paribas. Page 18

Yield on US bonds falls

Yesterday, the yield on the benchmark 30-year US government bond fell to under 6.6 per cent, the lowest it has been since 1977, when the Treasury began selling the 30-year issue on a regular basis. Page 19

Northern Telecom gets to grips

Two new drivers have been put behind the wheel of Northern Telecom, the Canadian telephone equipment maker. The appointments of Mr Jean Monty to chief executive and Mr Bradford Butler to chairman give a clue to how Northern plans to deal with its latest problems. Page 20

Losses for Japanese steelmakers

Kawasaki Steel, the Japanese steelmaker, blamed a group loss of Y30bn ($280m) on the restructuring of Armco Steel of the US in which it holds a 50 per cent stake, and on loan losses at a Japanese financial subsidiary. Another leading Japanese maker, Kobe Steel, reported a group loss of Y14.3bn, due to weak domestic demand for steel and machinery. Page 20

DTB lowers fees further

The Deutsche Terminbörse (DTB), the German screen-based futures and options market, will tomorrow introduce further cuts in transaction fees. Page 21

Discount for BT private investors

UK private investors will receive a 10p discount in the first instalment of the £5bn ($7.4bn) sale of the government's remaining tranche of shares in British Telecom. However, British Telecom may be forced by Oftel, the telecommunications regulator, to modify or withdraw its special offers and it also faces a possible inquiry into its highly profitable directory business. Page 22

Seeboard tops electricity payouts

Seeboard took the UK electricity sector's dividend increases to a new high yesterday by announcing a 15.9 per cent rise in its total payout for its latest financial year. Page 25

Aluminium cuts urged

Mr Paul O'Neill, chairman of the Aluminium Company of America, believes aluminium production cuts are urgently needed to forestall protectionist action by the European Community against the Commonwealth of Independent States. Page 26

Market Statistics

Companies in this issue

Chief price changes yesterday

FRANKFURT (DM)			
Rises			
AMB (Reg)	1120	+	50
Colonia Kozn	1140	+	25
Lahmeyer	640	+	14
Falls			
Asko	618	−	12
Rheinelektra	660	−	14
NEW YORK ($)			
Rises			
Intel	58⅝	+	⅝
Falls			
Allied Signal	67¼	−	1⅛
Apple	39	−	⅞
Compaq	49¾	−	4⅛
Digital Equip	41⅝	−	1⅛
IBM	48⅞	−	1⅛
PARIS (FFr)			
Rises			
Paris Rescompt	357	+	18
Schneider	669	+	16
Union Immob	581	+	16
Falls			
Gascogne (Soc N)	610	−	22
Intertechnique	450	−	10
Michelin B	155.1	−	5.4
TOKYO (Yen)			
Rises			
Nihon Seiko	471	+	37
Taisan	741	+	55
Falls			
Hazama	511	−	51
Minebea	641	−	39
Mitsui Cnstrct	605	−	34
Nishimatsu Cstr	1010	−	80

New York prices at 12.30.

LONDON (Pence)			
Rises			
Alexon	73	+	5
Anglia TV	353	+	38
Birkby	162	+	6
Caledonia Inv	484	+	25
Essex Furn	115	+	12
Feedback	65	+	17
Goldsmiths	56	+	4
Grampian TV A	236	+	23
Hardys Hansons	268	+	21
Irish Life	216	+	6
LWT Cnv Prf	466	+	81
MS Intl	41	+	4
Roskel	78	+	8
Security Svs	549	+	14
Seeboard	520	+	18
Waddington (J)	230	+	11
Walker & Staff	120	+	10
Yorks TV	189	+	14
Falls			
Carlton Comms	770	−	13
Ferranti	11¾	−	3
Gestetner	115	−	7
Quality Sftwre	567	−	21
Tiphook	322	−	10
Wellcome	683	−	25

Renault and Volvo fortify alliance

By Hugh Carnegy in Stockholm

RENAULT, the state-owned French vehicle maker, and Sweden's Volvo said yesterday they were setting up a department to plan joint car production, adding momentum to an alliance which appears to be heading towards a merger.

The "joint strategic and product planning department", to be set up by September, will succeed a joint planning committee and create a common management team for planning and co-ordinating the range of cars made by the partners.

Both companies, which entered an alliance in 1990, stressed they would retain the distinct identities of the Renault and Volvo marques, and separate production. But they would deepen co-operation on what cars each produced in different classes of vehicle and on shared use of components.

The move coincides with negotiations over a possible merger, which hinge on the French government's privatisation plans for Renault and the subsequent balance of power in a merged company between French and Swedish interests.

A privatisation bill is due to be passed by the French parliament next month which would allow Volvo to increase its 20 per cent stake in Renault and open the way for private French investors to take up Renault stock. Renault holds 8 per cent of the Volvo parent company and 25 per cent of the Volvo car company.

Renault said the creation of the joint planning department was not directly related to the merger talks: "If we cannot merge we can still benefit from this move. If we do merge, then it is better to have done it beforehand."

The new department is the latest development in steadily growing co-operation between Renault and Volvo. Already they make some 20 per cent of their annual purchases – worth some $15bn – together to achieve lower supply prices.

The companies already have joint quality projects, some shared marketing and distribution and are jointly developing a commuter bus.

Volvo's Dutch car production plant is to use Renault diesel engines and Renault plans to use a Volvo two-litre petrol engine for one of its future models. The two are also working on a project called P4 which envisages each company producing two executive car models built on a common platform.

The new planning department will be headed by Mr Georges Douin, Renault's production planning chief, with Mr Lennart Svantesson of Volvo as his deputy. This reflects the increasing assumption by Renault of the senior role in the alliance, as Volvo has been dragged down by heavy losses. The department, of up to 300 people, will be headed by a joint team of about 12 managers.

Matra studies Renault, Page 18

Ifil may bid for Ferruzzi food arm

By Haig Simonian in Milan and Alice Rawsthorn in Paris

MR UMBERTO Agnelli, chairman of Italy's Ifil holding company, yesterday raised the possibility of a bid battle for Eridania Béghin-Say, the Paris-based sugar and foods group controlled by the troubled Ferruzzi Finanziaria concern.

Mr Agnelli said Saint Louis, the holding company in which Ifil is a leading shareholder, could be interested in participating in a takeover of EBS.

"If the restructuring of the Ferruzzi group leads to some sort of operation at Eridania Béghin-Say, it's possible Saint Louis could take part," he said.

By contrast, Mr Agnelli ruled out a bid by BSN, the big French foods group in which Ifil has a minority stake. "BSN is certainly not interested as it does not produce raw foodstuffs."

Ifil now has 15.6 per cent of Saint Louis. However, it has an agreement with Worms – the biggest shareholder with 31.9 per cent – to raise its holding to a similar level. Ifil also owns 7.1 per cent of the holding company controlling Worms.

Mr Agnelli's statement comes just days after Mr Jean-Marc Vernes, the former chairman of EBS, suggested he might be interested in bidding for the group, possibly with Mr Raul Gardini, the previous guiding light at Ferruzzi.

Saint-Louis made no comment on Mr Agnelli's remarks.

However it referred to a statement by Mr Bernard Dumon, its chairman, saying his group was always interested in any potential investments in the European sugar industry.

The French company has already collaborated in a number of Ifil ventures, notably in last year's bid battle for control of the Perrier mineral water company.

Saint-Louis eventually sold its Perrier stake for a profit to the ultimate victor, Nestlé of Switzerland.

Saint-Louis is the third-largest player in European sugar with interests in other areas of food and in the paper industry. It recently announced a modest increase in net profits, from FFr765m in 1991 to FFr774m ($138.96m) in 1992 on turnover of FFr35.27bn.

Last autumn it paid FFr1bn for Société Sucrière-Germainmont and Sucrèrie de Guignicourt, two French sugar makers.

Ferfin shares suffer, Page 18

IBM may force job cuts on European staff

By Alan Cane and Diane Summers in London

INTERNATIONAL Business Machines, the troubled US computer manufacturer, has announced the most profound reorganisation any of its subsidiaries has ever attempted. The shake-up in the UK could involve the first compulsory staff cuts in the group's European operations, previously unthinkable in its culture of high job security.

Its UK sales operations are to be divided into 30 separate businesses as part of a far-reaching programme to restore the company to profit.

Under the scheme, codenamed "Galaxy", each business will be responsible for determining its own prices and costs and answerable to head office for its performance. Businesses which do not meet agreed targets face closure or radical restructuring.

"Perform or else" would be a good way of putting it, according to Mr Javaid Aziz, IBM's marketing manager for the UK. The plan, developed over the past six months, has the approval of Mr Louis Gerstner, IBM's new chairman and chief executive.

The businesses will deal with specific industries or products, such as mainframes, personal computers or computer services. IBM's European factories are already on a similar footing.

The disk drive plant at Havant, Hampshire, faces closure if it does not make a satisfactory profit this year.

The reorganisation was presented to Mr Gerstner when he visited Britain at the end of April by Mr Nick Temple, IBM UK general manager, and Mr Aziz. IBM UK lost £616m ($924m) on sales of £3.75bn last year.

Details of the plan have been outlined to IBM's top 60 managers over the past few days. Staff numbers in marketing and sales are likely to fall to about 6,000 by the third quarter of this year compared with 10,500 at the start of 1991.

Headquarters staff will be cut to 100 key executives by the end of 1993 from a total of 2,500 in 1991. Some of the surplus staff will be employed in the new business units. Others have left the company already or will do so by next Monday. Mr Aziz said the plan would not involve more job cuts than had been announced earlier in the year.

The UK operation is, however, under pressure to complete cuts in the size of its total workforce swiftly. Overall staff numbers will have been cut by 40 per cent by the end of the summer, from a peak of about 18,600 in 1985 to just over 11,000.

Monday is the deadline for staff to accept the latest of a series of voluntary severance packages. If the final 600 jobs cannot be lost voluntarily, staff will be told that job losses could be compulsory. These would be the first enforced staff cuts in Europe, after more than 2,000 this year in the US.

IBM has prided itself on job security as part of a package which includes individual contracts and no trade unions. Some senior managers who have opted to stay with the company, have had to accept demotion.

Pay cuts will be cushioned over two years.

IBM speech advance, Page 19

Simon Holberton explains why Murdoch's expansion move foundered

Hitting barriers in Hong Kong

Rupert Murdoch is not a man who often makes mistakes. But the obstacles to him using Hong Kong as a launching pad for his Asian broadcasting ambitions were such that initial failure should come as no surprise.

His bid to own 22 per cent of Hong Kong's Television Broadcasts ran counter to at least three legislative prohibitions.

His side deal with TVB's controlling shareholders, Sir Run Run Shaw and Mr Robert Kuok, to increase his stake to about 33 per cent compounded the problem.

Hong Kong broadcasting law is written with the presumption that foreign ownership will be refused.

Exemptions are needed for a foreigner to vote more than 10 per cent of a licensee's stock and for an existing broadcaster to own more than 15 per cent of a licensee.

Mr Murdoch's ownership of Fox Television of the US puts him at odds with the latter.

To obtain these exemptions, Mr Murdoch would have to produce compelling evidence of how the public interest would be served.

The logic for Mr Murdoch of the TVB deal can be summed up in one word: China. It is the emerging television market in north east Asia and TVB alone has the wherewithal to make commercial Chinese broadcasting work. It is the dominant terrestrial broadcaster in Hong Kong with a Chinese language channel that reaches an estimated 16m viewers in neighbouring Guangdong. It has recently entered satellite broadcasting in Asia.

Mr Murdoch hoped to marry his abilities in managing a satellite broadcaster with TVB's control of Chinese language programming. It produces 5,000 hours of Chinese programming annually and has a library of more than 100,000 hours of material. Indeed, it has been estimated that TVB's library is equivalent to 60 per cent of Asia's stock of Chinese language material, excluding communist China.

Rupert Murdoch: Logic of the deal can be summed up in one word

Mr Murdoch has been assiduous in his cultivation of Chinese leaders. He first visited China in the early 1980s and earlier this year he spent a week in Beijing meeting the leadership. His Fox Television distributes movies in China and houses a Chinese government censor in Hong Kong.

It was, however, becoming increasingly clear that China had reservations about the proposed deal. Media in China is controlled by the Communist party, which takes seriously what mainland Chinese view and read.

Late last week, the semi-official China News Agency in Hong Kong reminded the colonial government that "deep thought" was required before a decision was made. The phraseology was low key, but the message was clear: don't do this.

As one British diplomat observed: "The Chinese want to have as few uncontrollable influences on the media as possible after 1997" – the date at which sovereignty reverts.

Chinese opposition to the deal also appears to be impervious to the entreaties of Sir Run Run and Mr Kuok, both of whom have longstanding connections in Beijing. As one TVB executive said last night: "Connections are one thing but whether they are useful in this case is another matter."

BAT exchanges cigarette brands with US rival

By Philip Rawstorne in London

BAT Industries and American Brands, the rival tobacco groups, are to swap some cigarette brands as part of a drive towards pan-European marketing.

The move, a rare example of consumer companies swapping brands to simplify their ownership, was announced yesterday as BAT revealed that the cigarette price war in the US would reduce first-half trading profits at its Brown & Williamson subsidiary by $75m. The problem lay in excessive stocks of its full-price US brands, notably Kool.

BAT will acquire from American Brands the Lucky Strike and Pall Mall cigarette businesses in France. In exchange, American Brands will get BAT's Benson & Hedges operations in the duty-paid markets of the European Community and European Free Trade Area.

As part of the deal, prompted by the creation of the European single market, American Brands will pay BAT about £135m – £70m in cash with the balance paid over 10 years according to B&H sales.

The £135m will be included as a pre-tax profit in BAT's accounts for 1993. The net trading profit foregone is estimated at about £8m a year.

The arrangements have been approved by the EC Commission.

BAT, which owns the Lucky Strike and Pall Mall trademarks in the rest of Europe, will continue to license the brands in France to Seita, the state-owned tobacco company. Sales of Lucky Strike in France have increased by 27 per cent a year since 1989 to 1.2bn cigarettes and BAT believes it offers scope for development across Europe.

BAT's worldwide Lucky Strike volume, which has grown by 18 per cent a year to 17.1bn since 1989, will also benefit from the deal which extends its rights to the brand into the US duty-free trade and a number of other markets, including the Philippines, Algeria and Cuba.

American Brands will retain control of the US domestic market where the brand's sales volume amounted to 1.7bn last year.

Gallaher, the British subsidiary of the US group, which owns the Benson & Hedges brand in the UK and Ireland, will now manufacture and market the brand throughout the rest of western Europe. However, BAT – which owns the biggest UK export brand, State Express 555 – will retain control of the B&H brand in European duty-free and other international markets.

Sales of B&H in Europe last year accounted for 3bn of total worldwide volume of 17bn.

Lex, Page 16

Investor sells stake in Asea

By Christopher Brown-Humes in Stockholm

INVESTOR, the Wallenberg family's key holding company, is cutting debts by nearly SKr3bn ($385m) through the sale of its entire shareholding in Asea, the joint owner of the Asea Brown Boveri engineering combine.

A total of 6.96m shares, 7.4 per cent of Asea's capital, have been placed with around 130 international and domestic institutions at SKr422 per share. The move raises SKr2.94bn for Investor and will produce a SKr950m capital gain.

The deal does not significantly weaken Investor's influence over Asea, thanks to a related agreement involving the Investor associate Incentive.

This involves reclassifying 6.1m of Incentive's Asea B shares which carry one-tenth of a vote, to one-vote A shares, while a similar number of the shares Investor is selling will switch from A to B status.

This will increase Incentive's voting stake in Asea to 32.9 per cent from 25 per cent, while only cutting Investor's overall voting influence from 35 per cent to 32.9 per cent. Investor holds 25.9 per cent of the capital and 34.1 per cent of the votes in Incentive.

Investor said the sale was in line with its stated strategy of cutting net debt, which at March 31 stood at SKr9.88bn.

The investment group has stakes in many of Sweden's blue-chip companies, including Astra, the pharmaceuticals group; Stora, the forestry concern; SKF, the roller bearing manufacturer; and Ericsson, the telecommunications group. Although it also holds a 1.4 per cent stake in Skandinaviska Enskilda Banken, the troubled Swedish bank, it said its decision to sell was not directly linked to SE Banken's forthcoming share issue.

The placing was arranged by Morgan Stanley International and Enskilda Corporate. The placing price was SKr30, or 6 per cent, below the SKr452 level at which Asea's shares closed on Monday, contributing to a SKr22 fall in Asea's share price yesterday.

Nordic groups plan collaboration

By Christopher Brown-Humes in Stockholm

HUHTAMAKI, the Finnish consumer products group, is buying the European confectionery operations of Sweden's Procordia for SKr900m ($115.4m) as part of a broad collaboration between the two companies. The deal will be funded by an issue of 3m new shares to Procordia, making it the third-largest shareholder in the Finnish company with a 10.9 per cent stake.

The groups will also set up a joint venture pharmaceuticals operation to boost European sales of two gynaecological products outside Scandinavia.

Procordia's European confectionery businesses, which had 1992 sales of SKr1.05bn, will add 60 per cent to the European sales of Huhtamäki's Leaf group, the world's 10th-largest confectionery company. Until now, two-thirds of Leaf's sales have been generated in North America. Its 1992 European sales were FM1.32bn ($230.4m).

Huhtamäki gains a presence in several European markets – including Norway, Denmark and Spain – and access to important brands, including Läkerol throat pastilles and SorBits chewing gum. The deal gives Huhtamäki manufacturing units in Sweden, Denmark, Germany and Spain, and sales organisations in nine European countries.

Huhtamäki's chief executive, Mr Timo Peltola, noted that the acquired businesses made a SKr40m loss last year, and said their prospects "will remain depressed for a while".

The co-operation within pharmaceuticals centres on Procordia's Kabi Pharmacia unit and Huhtamäki's Leiras division. Both groups are to explore further areas for co-operation, although Procordia will be restricted to a maximum 21 per cent stake in Huhtamäki.

The transaction will not be affected by last month's accord between the Swedish government and Volvo, the car and truck group, which will split Procordia into separate pharmaceutical and food/consumer products units this autumn.

Ferfin share price suffers renewed battering

By Haig Simonian in Milan

FERRUZZI Finanziaria (Ferfin), the debt-laden Italian group, and its Montedison industrial subsidiary suffered a renewed battering on the Milan stock market yesterday as trading resumed after Monday's one-day suspension.

Ferfin ordinary shares dipped 8.6 per cent to L498.5, while Montedison stock slipped 8.62 per cent to L799 as speculation mounted about the causes of the huge write-off announced by Montedison on Monday.

Ordinary shares in Ferfin have now plunged by more than 53 per cent since the end of last month, when the group unveiled surprisingly large losses for 1992. Stock in Montedison has fallen slightly less sharply, with a drop of 30.2 per cent.

Further information about the write-off, which meant a revision of Montedison's 1992 group losses to L1,679bn ($1.08bn) from L1,244bn, may come at today's shareholders' meeting of Ferfin in Ravenna.

Official information about the increased loss has so far been limited to terse comments by Mr Enrico Pizzi, a veteran board member. He said the loss had stemmed from a "credit, which has been revealed to be irrecoverable", made by Financing and Investments NV.

The little-known company, based in Curaçao and not listed in Montedison's annual report, is a subsidiary of Montedison International Holding.

The scarcity of details has triggered speculation that the write-off could be linked to illicit payments in the political corruption scandal.

Two members of the board of Montedison International Holding are involved in financial operations linked to subsidiaries of Fiat and the big Eni state energy and chemicals concern, both of which have been involved in kickbacks to politicians.

Eni has admitted to using foreign subsidiaries for making illicit payments to Italian politicians.

Commerzbank purchase marks French expansion

By David Waller in Frankfurt

COMMERZBANK, Germany's third-largest private sector commercial bank, is diversifying into the French asset management market with the acquisition of Caisse Centrale de Réescompte, a bank owned by Groupe Paribas.

Commerzbank did not disclose the purchase price but is believed to have paid over DM100m ($60.20m) for CCR, one of France's leading independent fund managers.

CCR has a full banking licence and is involved in money market and foreign exchange activities for financial institutions. At the end of last year the balance sheet total was FFr17.8bn.

Commerzbank said the purchase would complement the activities of its existing Paris branch (opened in 1976) as well as Commerz International Capital Management, a Frankfurt-based subsidiary, which specialises in fund management for non-German clients.

The timing of the transaction, Commerzbank said yesterday, was partly driven by the bank's decision to strengthen its position in France ahead of the planned sell-offs of French state-owned companies.

The move is the latest in a series of Franco-German transactions in the financial services area, including the recent acquisition of BfG – a large German bank – by Crédit Lyonnais. At one time Crédit Lyonnais and Commerzbank had ambitious co-operation plans but these came to nothing. BHF-Bank, a Frankfurt bank, has linked with Crédit Commercial de France in plans to buy Charterhouse, the UK merchant bank.

The cross-border deals extend to the insurance sector as well: on Monday Assurances Générales de France, the French insurer, disclosed that it had taken its stake in Aachener und Münchener Beteiligungs from 25 to around 33.5 per cent, strengthening its ties with Germany's second biggest insurance group.

Fl150m loss forecast by Fokker

By Ronald van de Krol in Amsterdam

FOKKER, the Dutch aircraft maker in which Deutsche Aerospace (Dasa) of Germany recently acquired a majority stake, expects to report a loss this year of Fl1150m ($79m), compared with net profit of Fl120m in 1992.

The company, which blamed the downturn on the malaise in the world aviation market, said it expected an improvement in 1994 and future years, helped by Dasa's involvement and by restructuring measures already being taken.

The predicted loss is due partly to the non-recurring cost of laying off staff, as well as to higher interest charges caused by the burden of unsold aircraft.

Fokker is lowering output and restructuring production of its Fokker 100 model so that final assembly takes place only when a delivery is about to be made.

The warning of losses came after the close of trading in Amsterdam, where a minority of Fokker's shares are still listed.

Fokker said debt levels would fall in the course of 1993. It added that its financial position would be bolstered by the recapitalisation associated with the sale of government-owned shares to Dasa, as well as the recent issue of new shares to the German company, which is part of the Daimler-Benz group.

State covers Swedbank default

By Hugh Carnegy in Stockholm

THE SWEDISH government was forced yesterday to lay out SKr400m ($51.8m) to cover an interest payment missed by the owners of Swedbank, the largest bank in the Nordic region by asset volume.

The move takes the state a step closer to becoming a principal shareholder in another of Sweden's ailing bank groups.

The state Bank Support Authority stepped in to make the first interest payment due on a SKr3.5bn commercial loan raised by Swedbank's main shareholders as part of a government-backed package to ensure the capital adequacy of the loss-hit bank.

The government guaranteed the commercial loan and provided a further state loan of SKr3.8bn to the 11 savings bank foundations, whose institutions were merged late last year to form Swedbank.

In return, the foundations, which own 55 per cent of the voting capital in Swedbank, pledged 70 per cent of their shareholding as collateral.

However, a lack of dividend flow from Swedbank meant the foundations were unable to pay the first interest tranche on the commercial loan, forcing the government to redeem its guarantee and call in the equity collateral.

The Bank Support Authority was yesterday at pains to stress that this did not mean the state had, in effect, become a 40 per cent shareholder in Swedbank. It is clearly a possibility, however, if the foundations go into deeper default.

The state has already completely taken over two Swedish banks – Gotabanken and Nordbanken – and pledged SKr74bn in aid for the banking sector, stricken last year by a spate of loan losses.

It is still in the middle of negotiating a further package of aid for Swedbank. The deal, likely to include a refinancing of the earlier package, is expected to be concluded in the autumn.

Swedbank, which is known locally as Sparbanken Sverige, has total assets of SKr540bn. It showed an operating loss of SKr884m in the first quarter after loan losses of SKr2.78bn.

The bank has warned of continued high loan losses through 1994, despite a recent improvement in underlying earnings capacity, which it attributed mainly to falling interest rates.

Granada's LWT deal surprises

By Raymond Snoddy

GRANADA Group surprised the UK's independent television sector by paying £67m ($100.5m) for a 14.99 per cent stake in London Weekend Television, the maximum possible under present rules.

Granada paid a considerable premium: 500p a share compared with Monday's price of 375p. Yesterday, LWT's share price rose from 375p to 468p.

The move is a clear indication that Granada – which also has interests in leisure, TV rental and computer services – plans to expand in the television market.

This year the company, which holds the north-west England franchise and is responsible for programmes such as Coronation Street and World in Action, was beaten to a stake in Yorkshire Television by LWT.

Yesterday, Mr Gerry Robinson, chief executive of Granada, insisted the deal was "a stand-alone investment" rather than a gamble that the rules on ownership of ITV companies will be relaxed.

Current legislation says the nine largest ITV companies cannot take each other over because of fears about concentration of ownership.

The government has made it clear it is prepared to consider relaxing the rules.

Mr Guy Lamming, media analyst at James Capel, said yesterday: "Granada has almost certainly done this in the hope that the rules will change. It would be too much to pay for a trade investment."

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UK publisher to raise £190m

By Raymond Snoddy in London

UNITED Newspapers, publisher of the Daily and Sunday Express, yesterday announced a one-for-five rights designed to raise £190m ($285m).

The UK-based publishing group, with interests ranging from regional newspapers and business magazines to exhibitions, said the aim of the rights issue was to reduce debt, currently estimated at £300m, and provide scope for further expansion.

"A number of opportunities for expanding existing publishing and exhibition interests are being actively pursued in the US and Far East," the company said.

The price of the new shares were set at 480p and the issue was fully underwritten by Samuel Montague. Mr David Foster, media analyst at stockbrokers Smith New Court, said the reaction of institutions to the rights issue had been "somewhat grudging", mainly because there was no sign of imminent takeover deals.

The rights issue follows a 28 per cent increase in profits in 1992 before exceptional items, and United's directors forecast that pre-tax profits for the first six months of this year would exceed the £46.5m achieved in the first half of 1992.

Mr Graham Wilson, finance director of United Newspapers, said the company needed to strengthen its capital base and that it was more honest to raise the money in one go rather than in a series of small rights issues.

United is likely to raise more cash through the sale of Extel, its financial information company. A sale is not under active consideration, but Extel is seen as a non-core business and will probably be sold if the right offer is made.

Lex, Page 16

Matra-Hachette studies Renault

By Alice Rawsthorn in Paris

MATRA-HACHETTE, the French defence electronics and media group, is keen to participate in the French privatisation programme by taking stakes in the Renault motor group and Aérospatiale, the aerospace concern.

Mr Jean-Luc Lagardère, the Matra-Hachette chairman, said the group was actively considering investment in Renault, with which it already has a joint venture to produce the Espace luxury van.

"It's clear that the government sees us as an interesting investor," said Mr Lagardère at the shareholders' meeting of Lagardère Group, through which his family controls Matra-Hachette. "If Renault's management is favourable we would be interested in participating in its privatisation."

Matra-Hachette's interest comes at a time of intense speculation about a merger between Renault and Volvo of Sweden. The French government is thought to be trying to assemble a group of *noyaux durs*, or long-term strategic investors, in Renault as a precursor to privatisation and to the merger.

The government has called on companies to act as *noyaux durs* for all the privatisation candidates, as it did in the mid-1980s state share sales. Société Générale, the bank, and Alcatel-Alsthom, the electronics group, have already indicated their interest.

IFIL, the Italian holding company linked to the Agnelli family, yesterday also expressed its interest.

Mr Lagardère said Matra-Hachette might also invest in Aérospatiale, although he saw its flotation as a longer-term prospect. Mr Edouard Balladur, the French premier, has said that Aérospatiale was unlikely to be sold until after 1995.

YPF shares soar 21% in early trading

By John Barham in Buenos Aires and Damian Fraser in New York

TRADING in YPF, Argentina's newly-privatised oil company, got off to a roaring start yesterday in New York and Buenos Aires. In Buenos Aires, traders pushed its share price up by 21 per cent to $23 by lunchtime amid scenes of frantic activity on the exchange floor.

On Monday, the government announced it would sell 45 per cent of YPF at a price of $19 per share, raising $3.04bn in cash in Argentina's largest privatisation. The issue was over-subscribed by about five times, and yesterday's trading reflected unsatisfied demand in the wholesale segment.

Mr Win Smith, chairman of Merrill Lynch International, said "we saw broader interest in the deal than for any transaction we have ever done," with the issue several times over-subscribed in the US, Argentina, and the rest of the world.

The local and international markets' positive reception for YPF came as a huge relief for the government. One of its objectives was to use the YPF privatisation to reactivate Argentina's sickly equity market and open the door for international share issues by other Argentine companies.

Heavy demand enabled the Argentine government to increase the stock available to 140m shares from 125m, with an option on another 20m open to underwriters.

With the market price above the $19 opening, the option is almost certain to be taken up. The offering will be divided between 65m shares for the US, 35m for Argentina and 40m for international markets.

The government has told the worldwide sales team assembled by global co-ordinators CS First Boston and Merrill Lynch to favour investors planning to hold YPF for the long term over suspected short-term, speculative players.

Sumitomo investment in LTV to go ahead

By Robert Thomson in Tokyo

THE emergence of LTV, the US steel group, from Chapter 11 bankruptcy this week has triggered a $200m investment in the group by Sumitomo Metal Industries of Japan.

The investment, announced when LTV filed its financial reorganisation plan early last year, involved $100m in convertible voting preferred stock and $100m in senior secured convertible notes, about a 10 per cent stake in the third largest US steel manufacturer.

SMI's investment comes regardless of the burdens on other Japanese steelmakers which took equity stakes in US companies. Kawasaki Steel announced a group loss of Y30bn ($282m), mostly due to restructuring costs at Armco Steel of the US, in which it has a 50 per cent stake.

The investment follows ventures which began in 1984 and was decided partly in response to the friction created by Japanese steel exports to the US, which have been hit by anti-dumping duties.

Sumitomo has about 10 factories in the US, but said demand from Japanese carmakers and electronics companies had increased the need for high-quality steel, which the closer relationship with LTV was intended to provide.

Corning growth slows to 6% in quarter

By Martin Dickson in New York

CORNING Inc, the US high-technology group, yesterday reported a 6 per cent increase in second-quarter earnings per share, excluding special charges, and blamed the slow growth mainly on poor retail conditions and economic deterioration in Europe.

The company announced net income of $89.8m, or 47 cents a share, compared with $67.2m, or 35 cents, in the same period of last year. However, the 1992 figures were held back by a one-time reduction in equity earnings of $16.3m, or 9 cents a share. Net sales rose from $871.5m to $906.8m.

Mr James Houghton, chairman, said the company expected a continued improvement in earnings in the second half.

However, the second-quarter results were below the company's expectations, and the trend was similar to that in the first quarter – "a good start in the first eight weeks and a disappointing slow-down in the last four weeks".

He said the US optical fibre and cable businesses were strong and the laboratory testing business had a good quarter. Weakness was concentrated in consumer products, which were hurt by poor retail environments, and all of the European businesses.

● Damon Corporation, a medical testing laboratory group which which was the subject of a $370m unsolicited bid from Corning on Monday, said yesterday its board had directed management to hold negotiations with Corning.

Corning's move followed a $258m agreed bid for Damon last week from National Health Laboratories.

Corning runs MetPath, one of the largest clinical laboratory businesses in the US, and the takeover would put it in contention for the leadership of the sector with first-ranked SmithKline Beecham.

Falling yields trigger record-breaking run

Patrick Harverson reports on the unexpected revival in the US bond market

SIX weeks is a long time in the US Treasury markets. A month-and-a-half ago, investors in US government securities were fretting that the Federal Reserve would tighten monetary policy to curb rising inflation.

Their concerns were depressing bond prices, and had sent the yield on the long bond up to 7.05 per cent. The bond market rally, which for two years had pushed stock prices to record levels and fuelled an unprecedented boom in corporate bond issuance, looked over.

Today, investors' inflation fears have abated, Fed policy appears to be back on hold, and bond yields are heading down again. Yesterday, the yield on the benchmark 30-year government bond fell to under 6.6 per cent, the lowest it has been since 1977, when the treasury began selling the 30-year issue on a regular basis. Yields on shorter-dated securities also fell to record or near-record levels.

Several factors have driven the impressive recovery in bond prices. First, the inflation outlook has turned positive. In the opening months of 1993, consumer and producer prices surged, threatening to take the annual inflation rate above 4 per cent and beyond. Recent figures, however, showed price rises have slowed once more. Analysts now predict annual inflation this year will stay in the 3 per cent to 3.5 per cent range.

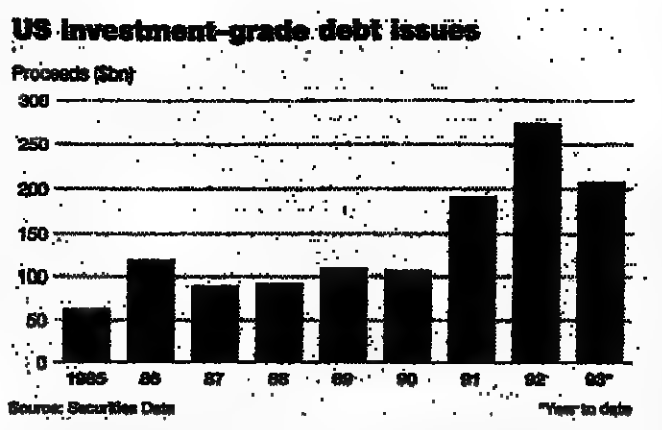
Second, the economy remains weak by normal post-recession standards. Since economic growth put on a spurt in the final quarter of 1992, output growth has slowed. Gross domestic product expanded by only 0.7 per cent in the first quarter of this year, and is expected to remain relatively anaemic for at least another two quarters.

Economists place much of the blame for the poor growth on President Bill Clinton's planned tax increases, which are discouraging consumers from spending and companies from hiring or investing in new capital, and on poor demand from depressed overseas economies.

Third, the likelihood that the president's deficit-reduction package will be passed by Congress this summer has cheered bond investors, who see it as the first meaningful attempt by the administration to tackle the huge federal budget deficit.

Finally, several technical factors are temporarily boosting bond prices. They include the absence of immediate supply pressures (the treasury is not due to sell new government securities until late July, which means there is currently a shortage of notes and bonds in the market), and heavy buying of bonds by municipal authorities eager to finance their higher-interest bearing debt.

The impact of the bond market's unexpected revival,



meanwhile, is being felt throughout the economy.

The equity markets, which might otherwise be in serious trouble because of the depressed economy, and the recent warnings from big companies about earnings prospects, continue to be propped up by low interest rates. When the 30-year yield hit a record low on Monday, the Dow Jones Industrial Average jumped 40 points, to within less than 1 per cent of its all-time high.

The market for new corporate debt is also benefiting greatly from low bond yields. The interest rates on bonds issued by US companies are pegged to treasury yields, and for the past two years corporations have been rushing to take advantage of cheap debt by issuing bonds in record amounts.

Last year, companies issued a record $274bn in investment-grade debt, well ahead of the previous record of $190bn set in 1991. This year, the volume of new issues has been even greater.

According to preliminary figures just released by Securities Data in New York, debt issuance is running at a record rate this year – up to June 29, $208bn in investment-grade bonds had been sold in the US markets.

In May, when bond yields were rising, analysts feared it was inevitable the boom in corporate bond issuance would slow. Now yields have dropped sharply again they see the boom in new issues lasting at least another six months.

Mr James Quigley, head of US debt syndication at Wall Street securities house Merrill Lynch, says: "This year we felt that attaining the levels of 1992 would be difficult – yet yesterday we surpassed $200bn. That puts us on a pace for $400bn for the year. Although I think that's unlikely, we should end the year at around $350bn."

The vast sums of money being raised on the debt markets continues to be used primarily to refinance older, more expensive debt. Refinancing has been a profoundly important feature of the financial markets for the past two years, helping to knock the balance sheet of Corporate America back into shape after the indulgences of the highly-leveraged 1980s.

Moreover, there is little sign companies have exhausted their need for refinancing. Mr Quigley says: "If the long bond yield falls to 6.5 per cent, we will see companies continuing to use debt to refinance in the third quarter."

Yet the Merrill banker says refinancing is not the only reason companies are issuing debt. "There will also be more of what I call 'opportunistic' financing – where companies issue debt purely to take advantage of the low rates, even if they don't need the money today."

As for whether companies are issuing new debt to finance spending on new capital and labour, Mr Quigley believes that will be determined primarily by the health of the economy – "financing for expansion is not yet pronounced" in the market, he says.

IBM shows off speech advance

By Louise Kehoe in San Francisco

IBM yesterday demonstrated advances in its speech recognition technology that will lead to the availability within the next 12 months of high-performance speech-to-text translation on low-cost personal computers.

The demonstrations included a dictation version of WordPerfect, one of the most popular PC word processing programs. IBM's technology provides a vocabulary of up to 32,000 words and can take dictation at a rate of about 70 words a minute.

Users train the system to recognise their own voice.

Promising applications of the speech recognition technology include its use by doctors, police, social services personnel and lawyers, Mr Sherwin predicts.

IBM also demonstrated the use of "continuous speech" recognition to create and manipulate data using Lotus 1-2-3, the leading PC spreadsheet program.

● Atari, the video-game manufacturer, said IBM is to manufacture a new TV game system, the Atari Jaguar. It will be made at an IBM plant in North Carolina.

Atari valued the agreement at $500m.

Setback at General Mills

By Nikki Tait in New York

GENERAL Mills, the US food manufacturer and restaurant operator, yesterday reported a fall in fourth-quarter after-tax profits in the three months to May 30 to $67.5m from $93.1m, on unchanged sales of $2bn. Net income for the year was $506.1m, against $495.6m in the previous 12 months.

The figures were struck after a $57.3m restructuring charge which General Mills says should generate about $15m of annual after-tax savings in 1994.

The company calculates that, excluding this item, earnings per share in the 12-month period would have risen about 13 per cent to $3.45.

Both the main divisions, consumer foods and restaurants, posted operating gains of around 11 per cent during the year.

Issue of up to U.S. $250,000,000

Elders Resources Financial Services Pty Limited

Subordinated Guaranteed Floating Rate Notes due 1996

For the interest period June 30, 1993 to December 30, 1993 the Notes will carry an interest rate of 4.35% per annum. The interest payable on the relevant interest payment date, December 30, 1993 will be U.S. $2,211.25 per U.S. $100,000 Nominal Amount.

By: The Chase Manhattan Bank, N.A. London, Agent Bank

June 30, 1993 CHASE

U.S. $100,000,000

Floating Rate Subordinated Loan Participation Certificates due 2000

Issued by The Nikko Securities Co. (Deutschland) GmbH for the purpose of funding and maintaining a subordinated loan to

The Ashikaga Bank, Ltd.

Notice is hereby given that for the three months Interest Period from 30th June, 1993 to 30th September, 1993 the Certificates will carry a Coupon Rate of 3.67813% per annum.

Coupon payable on 30th September, 1993 will amount to U.S. $939.97 per U.S. $100,000 Certificate.

The Mitsubishi Bank, Limited London Branch As Agent Bank

US $200,000,000

Banca di Roma

Floating Rate Depositary Receipts due 1999

For the period from June 30, 1993 to September 30, 1993 the Notes will carry an interest rate of 3⅝% per annum with an interest amount of US $854.51 per US $100,000 Note.

The relevant interest payment date will be September 30, 1993.

Agent Bank: Banque Paribas Luxembourg Société Anonyme

SVENSKA HANDELSBANKEN

AUSTRALIAN $50,000,000

7.65% Currency Linked Bonds due 1993

In accordance with the provisions of the Bonds, notice is hereby given that the redemption amount in respect of each A$100,000 Bond will be A$117,897.16 on 30.6.93.

DKB International plc London Agent Bank

U.S. $300,000,000

Bank of Greece

Athens, Greece

Floating Rate Notes Due 1996

Interest Rate	3.80% per annum
Interest Period	30th June 1993 30th December 1993
Interest Amount per U.S. $100,000 Note due 30th December 1993	U.S. $1,931.67

Credit Suisse First Boston Limited Agent

Notice to the Shareholders of

Morgan Stanley Japanese Warrant Fund N.V.

Registered Office:
Morgan Stanley Japanese Warrant Fund N.V.
John B. Gorsiraweg 6
Willemstad Curacao
Netherlands, Antilles

Managing Director:
Pierson Trust (Curacao) N.V.
John B. Gorsiraweg 6
Willemstad, Curacao
Netherlands, Antilles

NOTICE IS HEREBY GIVEN that the first Annual General Meeting of the Company will be held at the Registered Office of the Company listed above on the day of July 27, 1993 at 9.00 A.M. to consider the following agenda:

Agenda

1. Proposal to hear the management report of the Directors on the business of the Company and the conduct of its affairs during the fiscal year ended January 31, 1992.
2. Proposal to approve the Statements of Assets and Liabilities of the Company as of January 31, 1993 and the Statement of Operations for the period commencing February 1, 1992 to January 31, 1993, as audited by Price Waterhouse. Such statements are available at the Company's registered office listed above.
3. Proposal to approve the selection of Price Waterhouse as the Company's independent auditor.
4. To consider and act upon any other business as may properly come before the meeting or any adjournment thereof.

Member entitled to attend and vote at the Meeting is entitled to appoint a proxy to attend and vote in his stead. A proxy need not be a Member of the Company. The requisite instrument of proxy is available at the registered offices of the Company listed above and must be delivered to the Company AT LEAST 48 HOURS BEFORE THE TIME OF THE MEETING. Members holding bearer shares must identify themselves as such be presenting to the Managing Director listed above the certificates or a statement from a bank confirming that such bank holds the shares for the account of the shareholder and the bank shall not release such shares prior to the meeting. A Member wishing to appoint a proxy is advised to deliver a completed and signed instrument of proxy to the address specified via courier in order to ensure his representation at the meeting.

The Articles of Association of the Company do not provide for facsimile, telex, cable or other means of telecommunication in respect of instruments of proxy.

The Board of Directors.

Notice

MACQUARIE BANK LIMITED

US$125,000,000 MULTI-OPTION FACILITY AGREEMENT DATED DECEMBER 11, 1992

In accordance with the provisions of the Transferable Loan Certificate issued on December 31, 1992, notice is hereby given that for the six month interest period from June 30, 1993 to December 30, 1993, the Certificate will carry an Interest Rate of 3.975% per annum.

Barclays Bank PLC, Hong Kong As Agent

U.S. $250,000,000

Crédit Lyonnais

Subordinated Floating Rate Notes Due December 1999

Interest Rate	5¼% per annum
Interest Period	30th June 1993 31st December 1993
Interest Amount per U.S. $10,000 Note due 31st December 1993	U.S. $268.33

Credit Suisse First Boston Limited Reference Agent

U.S.$150,000,000 Floating Rate Participation Notes Due 1993 Issued by Primbond GmbH for the purpose of making a loan to

CREDIOP

CONSORZIO DI CREDITO PER LE OPERE PUBBLICHE ROME

Notice is hereby given that the interest payable on the relevant Interest Payment Date, July 30, 1993, for the period January 29, 1993 to July 30, 1993, against Coupon No 16 in respect of U.S.$10,000 nominal of the Notes will be U.S.$28.65 and in respect of U.S.$250,000 nominal of the Notes will be U.S.$716.15.

June 30, 1993, London
By: Citibank, N.A. (Issuer Services), Agent Bank CITIBANK

U.S. $400,000,000

BankAmerica Corporation

Floating Rate Subordinated Capital Notes Due 1996

(originally issued by)

BankAmerica Overseas Finance Corporation N.V.

Interest Rate	5¼% per annum
Interest Payment Date	30th September 1993
Interest Amount per U.S. $50,000 Note	U.S. $670.83

Credit Suisse First Boston Limited Agent

CITICORP

U.S. $350,000,000

Subordinated Floating Rate Notes Due November 27, 2035

Notice is hereby given that the Rate of Interest has been fixed at 5% in respect of the Original Notes and 5.0875% in respect of the Enhancement Notes, and that the interest payable on the relevant Interest Payment Date July 30, 1993 against Coupon No. 92 in respect of US$10,000 nominal of the Notes will be US$41.67 in respect of the Original Notes and US$42.40 in respect of the Enhancement Notes.

U.S. $500,000,000

Subordinated Floating Rate Notes Due October 25, 2005

Notice is hereby given that the Rate of Interest has been fixed at 5% and that the interest payable on the relevant Interest Payment Date July 30, 1993 against Coupon No. 93 in respect of US$10,000 nominal of the Notes will be US$41.67.

U.S. $500,000,000

Subordinated Floating Rate Notes Due January 30, 1998

Notice is hereby given that the Rate of Interest has been fixed at 5% and that the interest payable on the relevant Interest Payment Date July 30, 1993 against Coupon No. 90. in respect of US$10,000 nominal of the Notes will be US$41.67.

June 30, 1993
By: Citibank, N.A. (Issuer Services), Agent Bank CITIBANK

Commonwealth Bank Australia

Commonwealth Bank of Australia ACN 123 123 124
(successor in law to the State Bank of Victoria)

U.S. $125,000,000

10-Year Extendible Floating Rate Capital Notes

For the six months 29th June, 1993 to 29th December, 1993 the Notes will carry an interest rate of 3.55% per annum with an interest amount of U.S. $180.46 per U.S. $10,000 Note and U.S. $1,804.58 per U.S. $100,000 Note. The relevant interest payment date will be 29th December, 1993.

Listed on the London Stock Exchange

Bankers Trust Company, London Agent Bank

LEGAL NOTICES

No. 004612 of 1993

IN THE HIGH COURT OF JUSTICE
CHANCERY DIVISION
Mr Registrar Buckley

IN THE MATTER of CHARLES DAVIS (METAL BROKERS) LIMITED
- and -
IN THE MATTER of THE COMPANIES ACT 1985

NOTICE IS HEREBY GIVEN that the Order of the High Court of Justice Chancery Division dated 23rd day of June 1993 confirming the reduction of the Share capital of the above-named Company from £5,250,000 to £250,000 and the Minute approved by the Court showing with respect to the capital of the said Company as altered the several particulars required by the above-mentioned Act were registered by the Registrar of Companies on the 28th day of June 1993.

DATED the 28th day of June 1993

Slaughter and May (RDBC/FWN/JMDB)
35 Basinghall Street
London EC2V 5DB
Solicitors for the said Company.

COMPANY ANNOUNCEMENTS

LEBOEUF, LAMB, LEIBY & MACRAE
14, rue Montoyer,
1040 Brussels, Belgium

take pleasure in announcing that

James K. Lockett

has joined the firm in the Brussels Office as Partner in charge of the trade and customs practice.

Tel: (322) 514 5650
Fax: (322) 514 5048

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

1/2 hour period ending	Provisional Price for Trading on 30.06.93 Pool purchase price £/MWh	Final Prices for Trading on 03.06.93 Pool purchase price £/MWh	Pool selling price £/MWh
0030	18.09	18.48	18.48
0100	18.05	18.46	18.46
0130	18.01	18.11	18.11
0200	18.01	20.62	23.00
0230	18.01	20.62	22.97
0300	18.01	18.51	18.51
0330	18.01	18.51	18.51
0400	18.01	20.52	22.89
0430	18.01	18.49	18.49
0500	18.01	18.48	18.49
0530	18.04	18.49	18.49
0600	33.00	33.00	33.00
0630	33.00	33.00	33.00
0700	21.00	33.00	36.18
0730	25.57	24.36	26.91
0800	25.58	24.53	26.92
0830	25.60	27.17	28.50
0900	27.16	27.17	28.54
0930	27.62	27.44	28.80
1000	28.83	27.44	29.79
1030	31.74	27.44	29.79
1100	31.77	27.44	29.77
1130	36.69	27.44	29.77
1200	36.72	27.44	29.78
1230	36.66	27.44	29.78
1300	36.66	27.17	29.48
1330	26.88	27.17	29.45
1400	28.18	25.91	28.15
1430	28.17	25.91	28.17
1500	28.16	25.91	28.17
1530	28.17	25.91	28.16
1600	28.18	25.91	28.16
1630	34.05	25.91	28.16
1700	35.32	33.00	35.47
1730	35.30	33.00	35.47
1800	35.27	33.00	35.47
1830	35.24	25.91	28.17
1900	25.57	25.36	27.61
1930	25.57	25.35	27.63
2000	25.01	25.35	27.64
2030	24.53	19.07	19.07
2100	24.18	19.07	19.07
2130	33.62	25.25	27.62
2200	36.87	34.00	36.59
2230	54.00	34.00	36.60
2300	34.00	20.50	20.50
2330	20.50	19.00	19.00
2400	18.46	19.07	19.07

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £16.66/MWh becomes 1.666p/KWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreements which govern the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The calculation of pool prices is a highly complex process the product of which is subject to revision or correction (and sometimes major alterations) until final pool prices are determined approximately twenty-four days after the day of trading. Accordingly, due to the possibility of their revision and/or correction, no reliance should be placed upon provisional pool prices for any day being the same as final pool prices for that day. Final pool prices are also capable of revision. Pool Selling Price is the price paid by purchasers of electricity under the pool trading arrangements. It is dependent upon the determination of Pool Purchase Price. Further information on pool prices is provided on behalf of the Pool by Energy Settlements and Information Services Limited. Anyone wishing to receive such information should telephone 0602-456789 between 8.30am and 5.15pm Monday to Friday.
©Energy Settlements and Information Services Limited

Kawasaki Steel blames loss on Armco shake-up

By Robert Thomson in Tokyo

KAWASAKI STEEL, the Japanese steelmaker, yesterday blamed a group loss of Y30bn ($283m) on the restructuring of Armco Steel of the US, in which it holds a 50 per cent stake, and on loan losses at a Japanese financial subsidiary.

Kawasaki is still attempting to squeeze profits from Armco, in which it acquired a stake in late 1989.

The acquisition was one of a series by Japanese steelmakers seeking to enhance their US presence without increasing exports from Japan, which are still a sensitive trade issue.

Group sales at Kawasaki slipped 5 per cent to Y1,310bn, while pre-tax profit fell 69.7 per cent to Y16.1bn.

However, net profits were eroded by the company's half-share of a $460m loss at Armco, arising from the dismantling of old facilities and the introduction of continuous casting equipment.

Another leading Japanese maker, Kobe Steel, reported a group loss of Y14.3bn, which it said arose from weak domestic demand for steel and machinery, and from about Y10bn in investment losses incurred by a leasing subsidiary, Shinko Lease.

For the year ending in March, Kobe had reported a parent net profit of Y11.76bn compared with a group net profit of Y27.25bn in the previous year.

Sales were down 8.3 per cent to Y1,334bn.

Japanese steel companies are attempting to clear the debris from the late 1980s, when some financial subsidiaries became active players on the stock market, while others were part of the rush to lend to property developers.

Kobe Steel forecast a net profit of Y5bn for the current year, although the continued weakening of the domestic economy could force a revision later in the year.

The company is hoping for sales of between Y1,310bn and Y1,320bn, down slightly on last year, but assisted by strong demand from China.

NKK, another Japanese steelmaker, reported a group net loss of Y4.45bn, compared to a net profit of Y8bn in the previous period, and also said profits were hurt by a $48m loss at its US steel acquisition, National Steel.

Group sales were down 3.8 per cent to Y1,858.6bn.

Northern suffers from purchasing switch

Bernard Simon and Martin Dickson look at problems facing the Canadian telecoms group

NORTHERN Telecom has a history of skidding on an oily patch every few years. The Canadian telephone equipment maker has been fortunate, however, to find a new driver each time with the skill to straighten the wheel and put down the pedal for another burst of speed.

Northern is now in just such a skid. Following a 27 per cent drop in first-quarter earnings, it announced last week it expected a loss in the second quarter and "significantly" lower earnings for the year as a whole. Its share price has tumbled 28 per cent in the past two days to C$34.

True to form, a new driver – in this case, two new drivers – have taken the wheel. The appointments of Mr Jean Monty, who took over as chief executive from Dr Paul Stern last March, and Mr Bradford Butler, named to replace Dr Stern as chairman last week, give a clue to how Northern plans to deal with its latest problems.

Mr Monty, an astute and personable Quebecer, was previously head of Northern's sister company, Bell Canada, the country's biggest telephone utility. Bell is not only a big Northern customer, but is about the same size as each of the US regional operating companies on which Northern depends for sales of its computerised telephone switches.

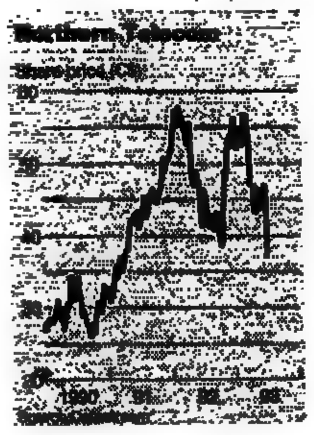
Mr Butler is a former chief executive of Procter & Gamble, the US consumer goods group. He is described by a fellow-director at Northern as "a great people guy" with excellent contacts in the US.

Dr Stern's legacy was to broaden Northern's international base. He led Northern into the acquisition of STC, the UK telecommunications group, and forged a valuable joint venture with Matra of France.

But his abrasive style and emphasis on international growth have hit Northern's core business in North America. Mr Michael Arellano, analyst at Northern Business Information in New York, says the company "might not have had these problems if customer service and software quality had been given more attention over the past four years."

Northern ascribes its difficulties to lower-than-expected sales of switching equipment. But this sits awkwardly alongside indications from US local telephone companies that they are pushing ahead with substantial capital investment programs which are little changed from previous years, or in some cases larger.

BellSouth, the "Baby Bell" serving the south-eastern US, says it plans to spend $3bn a year over the next three years on capital equipment – roughly the same as last year. Nynex, which serves the north-



eastern US, says it expects capital spending to be at around $2bn a year for some time.

Pacific Bell, which serves California, is spending $1bn over the next five years to replace analogue switches – the computers which route calls – with digital equipment, a Northern speciality. That is some $330m more than it would normally spend on switching equipment in a five-year period.

At the same time, increasing competition in the US local telephone market should provide more customers for switching equipment.

Northern has been slow to latch on to some of the fastest-growing areas of telecommunications, notably transmission, cellular and wireless. It is between 12 and 15 months behind its rivals in bringing key fibre-optic transmission products to market. Northern predicts that transmission products will eventually contribute as much as switching equipment to its business, but they made up only 11 per cent of revenues last year, compared with 50 per cent from switches.

Another challenge is the trend among US local telephone companies to place equipment contracts with fewer vendors. Nynex is expected shortly to announce which of four equipment suppliers – Northern Telecom, LM Ericsson, American Telephone & Telegraph and Siemens – has won a bid to supply 3.5m lines of digital switching.

Mr Romy Tomlinson, managing director of technology selection at Nynex, says the company is trying to minimise the number of vendors in order to lower operating costs. Fewer vendors means less money spent on training people to use the equipment, fewer problems of matching different suppliers' equipment, and less inventory.

The move to fewer suppliers has contributed to fierce pricing pressure in the North American market. Equipment vendors seem willing to cut prices to ensure they are on a telecommunications company's buyer list, because if they miss out they will have a hard time getting back on the list and may then have to offer either extremely keen prices or next-generation equipment.

The arrivals of Mr Monty and Mr Butler signal that Northern's priority will be to snuggle up again to the US telephone companies. "Northern is going to attack the world a little differently under Monty than it did under Stern or [previous CEO] Fitzgerald," predicts one of the company's directors.

Mr Monty's plan of action is likely to become clearer next month, when Northern publishes second-quarter earnings.

At least one, and possibly more, significant announcements are expected. One move may be to shift resources from switches to faster-growing products, with a consequent reduction in switching capacity. At least part of the second-quarter loss will probably comprise a hefty write-down to reflect this adjustment.

Some recent initiatives have yet to achieve top speed. The Matra alliance, for instance, links Northern with a leading supplier of radio systems. A cellular venture with Motorola in North America is still getting off the ground. But provided Mr Monty and Mr Butler are as deft as their predecessors, it could be just be a matter of time before Northern pulls out of its latest skid.

Daewoo Heavy turns to Russia for technology

By John Burton in Seoul

DAEWOO Heavy Industries plans to build helicopters using Russian technology, starting next year.

The Korean company has so far been mainly a producer of aircraft fuselages and wings and helicopter components, with aerospace sales of US$56m last year.

Daewoo will co-operate with the Mil Design Bureau to develop transport and multi-purpose helicopters for both domestic and foreign markets.

It will import helicopter production technology from the Kazan Helicopter Production Association and engines from the Klimov Design Bureau.

The project is the latest example of Korean companies turning to Russia for the supply of technology in areas ranging from electronics to aerospace.

Russian technology is less expensive than that from the US, and European and Russian companies have shown greater willingness to transfer technology to South Korea.

Saffa plans new legal action against KIO

By Haig Simonian in Milan

SAFFA, the Italian packaging and boxboard group which is locked in litigation with the Kuwait Investment Office over alleged irregularities in Spain, is poised to open a second front with a new legal action in London.

Mr Carlo Bonomi, Saffa's controlling shareholder, said that it planned to claim in the UK courts that the KIO had supplied "misleading" information about the condition of some of its Spanish activities in which Saffa had invested.

Earlier this year, Saffa persuaded courts in Geneva and Zurich to freeze more than L500bn ($323m) of KIO assets in Switzerland pending the resolution of a separate, but linked, claim.

The two actions stem from the L420bn deal in 1991 between Saffa and the KIO.

Saffa sold part of its Spanish Sarrio subsidiary to the Kuwaitis in return for cash, stakes in Prima Immobiliaria and Ebro, two KIO-controlled companies, and some industrial activities.

Since then, the crisis in the KIO's Spanish operations has resulted in the deal turning sour.

Saffa has received about L120bn in cash and shares worth L200bn, but claims that it is still owed about L110bn in cash – the reason for its Swiss court action.

The new legal initiative is over a separate claim that the KIO misled Saffa about the financial position of Prinma Immobiliaria, the Spanish property group in which Saffa has a 6 per cent stake.

Prima shares have fallen steeply as a result of difficulties within the KIO's Spanish operations and the downturn in the local property market.

Saffa claims that the price at which the shares were bought did not reflect the true value of Prima's property holdings.

Although the sale contract was signed in Spain, Mr Bonomi claims that UK law allows the case to be brought in London, as the information provided by the KIO was conveyed verbally there.

Problems in Spain accounted for a significant portion of Saffa's 1992 group losses of L34.6bn.

The company set aside L59.1bn in write-downs on its investments.

Philip Morris buys 49% stake in Russian plant

PHILIP MORRIS, the US tobacco, food and brewing combine, is buying a 49 per cent stake in a Russian cigarette manufacturer, Krasnodar Tobacco Factory, writes Nikki Tait from New York.

The US company plans to raise its interest to a majority position through further capital investment. Total investment is expected to exceed $60m. Philip Morris produces Marlboro cigarettes at the Samara Tobacco Factory, western Russia, and plans a new factory in St Petersburg.

INTERNATIONAL CAPITAL MARKETS

US prices hold their ground on weak economic data

By Patrick Harverson in New York and Peter John in London

US TREASURY prices held their ground at record levels yesterday morning following the release of data showing sustained weakness in the economy.

By midday, the benchmark 30-year government bond was unchanged at 105⅝, yielding 6.665 per cent. At the short end of the market, the two-year note was up 3/32 at 100 1/32, to yield 3.994 per cent.

GOVERNMENT BONDS

The morning's economic news was bullish for bonds. The May leading indicators registered a decline of 0.3 per cent, while new home sales for May were down 21 per cent, a much bigger fall than analysts had expected.

In addition, the Conference Board's index of consumer confidence fell to 58.9 per cent in June, down from 61.9 per cent – the sixth time in the seven months since the presidential election that consumer confidence has fallen.

The news cheered fixed-income investors, but it was only at the short end of the market that prices responded. At the long end, where yields fell on Monday to record levels, prices firmed in early trading but dropped back later in the morning to stand unchanged on the day.

■ UK GOVERNMENT bonds eased yesterday as traders prepared their books for today's record auction of gilt-edged stock, which is expected to generate substantial overseas interest.

The Bank of England is selling £3.25bn of 10-year bonds carrying an 8 per cent coupon, and the auction, which increases an existing issue to around £7bn, is expected to be very tightly bid.

The auction comes at a time when the combination of low inflationary pressures, slow recovery and a strengthening pound makes UK paper particularly attractive to overseas investors.

Economists estimate that around 30 per cent of gilt investment is now held overseas, with the bulk in the 10 to 15-year range, and dealers said yesterday that there was strong interest from overseas, especially Japanese investors who were preparing to sell dollars in order to buy gilts.

FT FIXED INTEREST INDICES

	June 29	June 28	June 25	June 24	June 23	Year ago	High *	Low *
Govt Secs (UK)	97.13	97.20	96.[illegible]	96.87	96.93	88.91	98.04	93.28
Fixed Interest	115.14	114.83	114.[illegible]	114.57	113.[illegible]	104.[illegible]	115.14	108.[illegible]7

Basis 100: Government Securities 15/10/26; Fixed Interest 1928
* for 1993. Government Securities high since compilation: 127.40 (9/1/35), low 49.18 (3/1/75)
Fixed Interest high since compilation: 115.14 (29/6/93), low 50.53 (3/1/75)

GILT EDGED ACTIVITY

Indices*	June 28	June 25	June 24	June 23	June 22
Gilt Edged Bargains	98.1	98.8	113.2	106.1	105.1
5-Day average	104.2	105.7	107.1	104.9	103.6

* SE activity indices rebased 1974

The feeling in UK trading rooms was that if the auction was covered more than 1.5 times it would be considered a success.

Medium-dated issues slipped back as dealers ensured that they were short of stock ahead of the issue and the key 10-year gilt that is being auctioned today fell 1/8 to 102 1/32. Short-dated issues were steady and index-linked gilts, which have been left behind recently as the market concentrated on conventional issues, bounced smartly.

■ THE LATE announcement of a German budget package and its possible implications for an interest rate cut gave a brief fillip to government bonds, which had been trading disinterestedly.

However, bund prices were unable to sustain the rally that briefly followed the announcement of DM20bn of spending cuts.

Bund futures for September opened at 95.76 and had drifted downwards in early trading as hopes of a rate cut at tomorrow's Bundesbank council meeting receded.

When the news of the budget package came through, the contract sparked ahead to 95.90 but by the close it had been taken down again to close 0.02 lower on the day at 95.74.

Belgian bonds picked up on German rate cut hopes and at the weekly T-bill auction the average rate on three-month T-bills fell to 6.68 per cent from 6.80 per cent.

■ FRENCH government bonds were easier ahead of a FFr17bn to FFr19bn OATs auction tomorrow and the yield spread between French and German 10-year issues widened slightly.

On the Matif, the September futures contract had been strongly through 120 in overnight trading but it was unable to hold that level and came back during official trading hours to close 0.10 lower at 119.82.

■ IN THE high-yielding government bond markets, Italy bounced 0.40 to 102.63 in the September futures contract while Spain traded sideways ahead of an auction today of one-year paper and an auction tomorrow of three-year, five-year and 10-year Bonos.

■ THE JAPANESE bond market focused on the prospect of heavy supply, due to the announcement of a seven-year Y225bn global bond issue from the World Bank, with the benchmark No 145 easing 10 basis points to 106.96.

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Change	Yield	Week ago	Month ago
AUSTRALIA		9.500	08/03	[illegible]	+0.074	7.57	7.53	7.87
BELGIUM		9.000	03/03	113.8000	+0.650	6.99	7.17	7.38
CANADA *		7.250	06/03	99.6000	+0.150	7.31	7.36	7.52
DENMARK		8.000	05/03	108.1150	+0.115	6.84	7.00	7.52
FRANCE	BTAN	8.000	05/98	107.6057	-0.177	6.13	6.23	6.70
	OAT	8.500	04/03	112.4000	-0.200	6.72	6.81	7.22
GERMANY		6.75	04/03	100.8750	+0.090	6.62	6.71	6.88
ITALY		11.500	03/03	101.9900	+0.110	11.48†	11.52	12.40
JAPAN	No 119	4.800	06/99	102.8918	+0.097	4.20	4.30	4.49
	No 145	5.500	03/02	106.9694	-0.103	4.39	4.46	4.59
NETHERLANDS		7.000	02/03	103.6300	-0.360	6.47	6.51	6.70
SPAIN		10.300	06/02	100.9237	+0.114	10.13	10.17	10.95
UK GILTS		7.250	03/98	101-14	-	6.88	6.96	7.14
		8.000	08/03	102-07	-6/32	7.68	7.78	8.10
		9.000	10/08	108-11	-12/32	8.04	8.14	8.50
US TREASURY *		6.250	02/03	[illegible]	+6/32	5.76	5.89	6.11
		7.125	02/23	105-28	[illegible]	6.67	6.76	6.93
ECU (French Govt)		8.000	04/03	108.4300	+0.020	7.06	7.13	7.61

London closing, *denotes New York morning session. Yields: Local market standard
† Gross annual yield (including withholding tax at 12.5 per cent payable by non-residents.)
Prices: US, UK in 32nds, others in decimal. Technical Data/ATLAS Price Sources

DTB introduces further cuts in transaction fees

By David Waller in Frankfurt

THE Deutsche Terminbörse (DTB), the German screen-based futures and options market, will tomorrow introduce a further round of cuts in transaction fees.

Following on from a round of fee cuts last year, fees on stock and index instruments for investors and market-makers will be cut by an average of 23 per cent, Mr Jörg Franke, one of the exchange's two chief executives, said yesterday.

Mr Franke said the fee reductions did not extend to products based on debt instruments. The move is aimed especially at private investors, who are mainly drawn to stock and index-linked products, he said. The cuts are also a way of sharing the profitability of the exchange with investors, he said.

Pre-tax profits at the DTB nearly trebled to DM42.2m ($25.4m) last year, reflecting a reduction in costs as well as higher income due to heavily increased trading volume.

Mr Franke reported that the number of contracts handled by the DTB had risen by 50 per cent to 21.11m in the period to June 25 this year.

DTB's strategy for 1993 is based to a large extent on further expansion abroad: in May this year, trading screens went on-line in Amsterdam and, according to Mr Franke, demand from institutions in other financial centres is high. But as Mr Gerhard Eberstadt, DTB chairman, has recently stressed, the lack of a central regulatory body for the German securities industry hampers the exchange's plans to expand abroad.

The DTB said that plans to link with Matif, the French futures and options exchange, were moving ahead on schedule. The aim is to finalise the co-operation agreement for consideration by the two exchanges by the end of the summer.

World Bank Y225bn global issue offers broad appeal

By Sara Webb

THE WORLD BANK turned heads with the launch of its giant Y225bn global bond deal yesterday. The seven-year bond issue has been much talked about in the market and is expected to appeal to a broad range of international investors – who want to enjoy the benefit of further currency appreciation – as well as Japanese investors hoping that a further interest rate cut will trigger a rally in Japanese government bonds and other yen-denominated issues.

INTERNATIONAL BONDS

Daiwa Europe, Goldman Sachs, and IBJ International, the three joint lead-managers, yesterday boasted that their 60 per cent allocation of the deal was already "placed and substantially oversold". Other houses generally praised the indicated pricing for the deal but said that, given the sheer size, it might take a while to place all of the paper.

Yesterday's offering is the World Bank's fourth global yen deal. It already has a five-year issue and two 10-year deals behind it but was keen to tap the seven-year area given the shortage of paper in this maturity. Dealers predict the issue will become an important seven-year benchmark.

The yen has been appreciating steadily against the US dollar in recent months, moving from Y126 to the dollar at the beginning of the year to Y105.32 on June 14. Since then, it has moved back to around Y111–Y112 on political jitters, but subsequently strengthened again to reach Y107 to the dollar yesterday.

Several houses predict that the yen has further to appreciate, and some are pointing to a trading range of Y90 to Y110. "There is a belief that the yen could go to 100 to the dollar, so international investors are looking for currency appreciation," said Mr Denis Kelleher of Daiwa Europe.

Meanwhile, Japanese investors are expected to be drawn by the prospect of a cut in the official discount rate, possibly after the election if the economy shows no sign of picking up, dealers said.

"There are some very large tickets in Tokyo: they are looking for a reasonably liquid asset, which is tradeable around-the-clock, with some pick-up over the JGB," said one dealer.

The bonds will be priced today with an indicated yield spread of 11–13 basis points over the JGB No 129. In the secondary market, the World Bank's five-year bond deal is trading at a yield spread of around 26 basis points over the JGB No 105 while the 10-year issue is about 18 basis points over the JGB No 145.

Aside from the World Bank's deal, the international bond market saw a couple of smallish Euroyen deals – from Osaka Gas and Korea Development Bank – and a handful of Eurodollar issues, including a $350m, five-year deal from Tokyo Gas Co.

Japanese utilities have been flocking to the market, lured by the relatively attractive pricing and the longer maturities available.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book runner
US DOLLARS							
Tokyo Gas Co.	350	5.5	99.836R	Jul.1998	0.275R	+40 (5¼%-98)	IBJ/ Merrill Lynch
Mitsubishi Kasei (UK)	50	5.75	100.25R	Jul.1998	0.25R	+55 (5¼%-98)	Mitsubishi Finance Intl.
BEMGE	50	10#	99.57R	Jan.1996	1.25R	+600 (a)	Bear Stearns Intl.
D-MARKS							
BHF Finance (Neths.)	100	6.5	100.675	Jul.2000	-	-	BHF Bank
FRENCH FRANCS							
Société Générale	[illegible]	6	99.67R	Aug.1995	0.1875R	+30 (9%-95)	Société Générale
Thomson-Brandt International	1bn	7	[illegible].575R	Jul.2000	0.35R	+67 (8½%-00)	Société Générale
YEN							
World Bank	225bn	(b)#	(b)R	Jun.2000	0.3R	(b)(6.4%-00)	Daiwa/ G. Sachs/ IBJ
Osaka Gas Co.	10bn	4.95	100.075R	Nov.1999	0.325R	-	Daiwa Bank Capital Mgmt.
Korea Development Bank	10bn	4	100R	Nov.1995	0.2R	-	Bank of Tokyo Cap. Mkts.
PESETAS							
European Investment Bank	15bn	[illegible]	101.37	Jul.2003	1.875	-	Banesto
SWISS FRANCS							
Nordic Investment Bank‡	100	(c)	100	Jul.1995	-	-	UBS

Final terms and non-callable unless stated. The yield spread (over relevant government bond) at launch is supplied by the lead manager. ☆Private placement. ‡Floating rate note. #Semi-annual coupon. R: fixed re-offer price; fees are shown at the re-offer level. a) Spread is over interpolated yield curve. b) Priced today to yield 11-13bp over JGB 129. Plus 23 days accrued interest. c) Coupon pays 6-month Libor - 0.15%.

South Korea plans some deregulation by 1997

By John Burton in Seoul

SOUTH Korea will substantially ease foreign exchange controls and open the bond market to foreign investors by 1997, the ministry of finance said yesterday.

The country will also allow foreign institutions to become shareholders in domestic banks during the next three or four years.

The majority of the changes, however, will not occur until 1996 or 1997 and the programme does not promise full abolition of foreign exchange controls nor unlimited foreign access to the bond market.

Although it will lift restrictions on speculative trading in foreign exchange markets, for example, the government warned that it will not tolerate "excessive currency speculation".

Documentation proving actual demand for routine foreign exchange transactions will be phased out, although "the principle of real demand will be maintained."

The government also promised to "pursue" a free-floating exchange rate system" during 1996 and 1997.

From next year, foreigners will be allowed to underwrite state and public bonds, including housing bonds, with interest rates "comparable" with international rates.

International organisations, such as the World Bank and the Asian Development Bank will be allowed to float won-denominated bonds on the domestic market in 1995, and foreigners will then be able to buy bond-type beneficiary certificates in an indirect opening of the bond market.

By 1997, foreigners will be allowed to acquire long-term and non-guaranteed bonds issued by small and medium businesses.

MARKET STATISTICS

FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 7:05 pm on June 29

[illegible]

STRAIGHT BONDS: The yield is the yield to redemption of the bid-price; the amount issued is in millions of currency units. Chg. day=Change on day. FLOATING RATE NOTES: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. Spread=Margin above six-month offered rate. C.cpn=The current coupon. CONVERTIBLE BONDS: Denominated in dollars unless otherwise indicated. Chg. price=Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem=Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	21	26	29
Other Fixed Interest	9	4	2
Commercial, Industrial	275	277	840
Financial & Property	117	135	548
Oil & Gas	18	15	47
Plantations	0	2	8
Mines	17	62	60
Others	44	61	42
Totals	501	576	1,593

LONDON RECENT ISSUES

EQUITIES

[illegible]

FIXED INTEREST STOCKS

[illegible]

RIGHTS OFFERS

[illegible]

TRADITIONAL OPTIONS

- First Dealings June 28
- Last Dealings July 9
- Last Declarations Sep. 30
- For settlement Oct. 11

3-month call rate indications are shown in Saturday editions.

Calls in Aminex, Astec (BSR), Division, Ferranti, Flextech, Glaxo, Hillsdown, JF Japan wrnts., Kewill Sys., Kunick, Lep, Pilkington, Premier Cons., Ryan Hits., Tullow Oil, Westm. Selection and G. Wimpey. Doubles in Forte, Kunick, Lonrho, Porter Chadburn, Stoneshill A and Tarmac.

FT-SE ACTUARIES INDICES

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LIFFE EQUITY OPTIONS

[illegible]

FT-ACTUARIES FIXED INTEREST INDICES

[illegible]

10p discount for BT investors

By Andrew Adonis

UK PRIVATE investors will receive a 10p discount in the first instalment of the £5bn sale of the government's remaining tranche of shares in British Telecommunications.

The first instalment for investors in the international offer is to be 160p; the overall price, which will determine the sum payable in the third instalment, is to be determined after the international offer has closed on July 16.

The closing date for registration with share shops of the share information service is this Friday. Registration gives preferential treatment in allocations for the UK public offer, which closes on July 14.

Dealing in the partly-paid shares starts on July 19.

Launching the prospectus yesterday, Mr Kenneth Clarke, chancellor of the exchequer, said the offer was shaped to "help achieve one of our more cherished long-term ambitions of wider share ownership."

The shares will be allocated equally between the UK public offer and the international offer, but the government is reserving the right to increase the proportion available to UK investors to 67 per cent "in the light of demand."

Mr Clarke said that 4.7m registrations had been made to date, 1.4m with share shops and 1.3m with the share information service. At the close of the registration period for the last government sale of BT shares, 5.3m had registered.

The details of the offer were as expected by the City, although the discount is 5p less than that on offer at the sale of the last tranche of government BT shares in November 1991.

Two dividends will be declared on the partly-paid shares within six months. The first will be a net 9.45p paid in September. An interim dividend will also be payable before the second instalment is due next March.

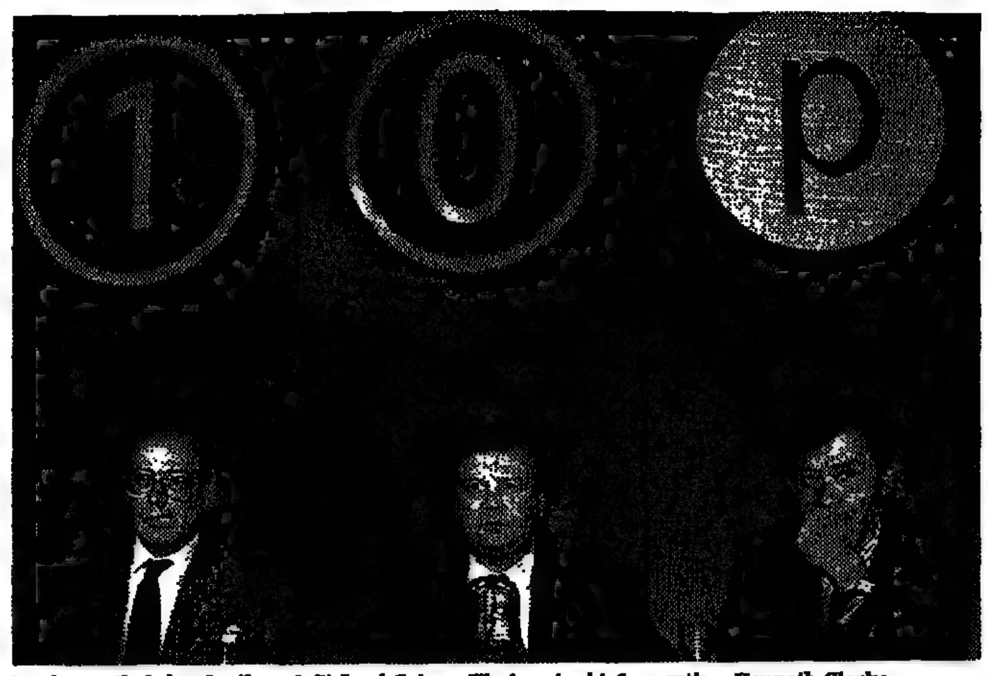
Some 2.4m existing shareholders and employees are automatically registered for shares. In the allocation, BT shareholders get preferential treatment, with allocations 50 per cent higher than non-shareholders.

Employees are guaranteed about 2,000 shares.

The minimum application for retail investors in the UK public offer is 120 shares. Larger investors and institutions must enter the retail tender – which is part of the international offer – where the minimum application is 2,000 shares, except for Pep applicants who can apply for a minimum of 1,000.

Bookbuilding for the international offer will start on July 8.

See Lex



A price on their heads: (from left) Lord Cairns, Warburg's chief executive, Kenneth Clarke, chancellor of exchequer, and Steven Dorrell, financial secretary to treasury

Halma at £21m as growth continues

By Andrew Bolger

THE DEVALUATION of sterling helped Halma, the safety and environmental technology group, maintain its strong record of growing profits and exports.

Pre-tax profits increased by 47 per cent to £20.9m in the 53 weeks to April 3, under FRS 3, and by 35 per cent under the old accounting conventions. Sales rose 23 per cent to £116m. Overseas sales rose by 35 per cent to £59.8m and direct exports from the group's UK companies rose by 34 per cent to £31.8m.

The group said its net profit margin on sales increased from 16.4 to 18 per cent and its overall return on capital employed was, at 45 per cent, in excess of 40 per cent for the 10th consecutive year.

Mr David Barber, chairman, was encouraged that the group had been able to achieve these figures during a difficult period for the UK economy.

Halma's net cash balances rose from £4.3m to £8.5m, although the group spent £4.5m on acquiring businesses and had capital expenditure of £5.39m.

Mr Barber said that during the 15 months since March 1992, Halma had bought eight companies and formed four businesses, bringing the total number of operating companies to 43. He said all the acquired companies had continued to trade satisfactorily.

Earnings per share rose by 43 per cent to 9.93p (6.92p) under FRS 3, equivalent to 29 per cent under previous rules. A final dividend of 1.6p (1.332p) is proposed for a total of 2.636p (2.195p). There is also a 1-for-3 scrip issue.

● COMMENT

Even allowing for the strong benefit which sterling's devaluation brought in the second half, these are very impressive figures. Halma continues to benefit from legislation which requires investment in industrial safety, water treatment and gas and fire detection. It can also point to a strong performance by companies that supply electronic sensors for lifts and service the US semi-conductor market. The shares, which rose 8p to 256p, have had a strong run since the beginning of 1991 and are on a prospective multiple of more than 22. The premium rating is justified, but the shares look fully valued.

ICI and Du Pont fibres swap expected shortly

By Paul Abrahams

AN ASSET swap between Imperial Chemical Industries of the UK and Du Pont, the US group, is expected to be completed within the next few days.

The deal, which involves ICI and Du Pont exchanging their respective fibres and acrylics businesses, was first announced in April last year, but has been held up by objections from the American Federal Trade Commission, the US competition authority. The two companies had originally hoped to conclude the swap by the end of last year.

However, ICI will not receive the full £250m provisionally agreed when the swap was first revealed because of deteriorating trading conditions in the European fibres market. The sector is suffering from overcapacity, sluggish demand and poor prices. Demand in the automotive market is particularly depressed.

The FTC's clearance will prove a relief for other chemicals companies. There have been fears that efforts to rationalise the industry in some loss-making sectors could fall foul of competition authorities in the US and Europe.

It remains unclear whether the FTC will insist ICI disposes of any of its American acrylics operations. These are small, however, and will not prevent the company becoming the world's largest manufacturer of acrylics with sales of about £500m. Du Pont's business has sales of about £160m.

Du Pont is acquiring fibres operations with sales of about £600m a year. The company has had only limited fibres production in Europe, but will now become one of the leading nylon manufacturers in the continent.

The American company still has to find a buyer for 12,000 tonnes of nylon carpet production in Europe. The European Commission said the capacity had to be sold.

Waddington falls 16% to £6m

By Peggy Hollinger

LOSSES ON the disposal of a subsidiary depressed profits at John Waddington, the packaging, printing and games company which yesterday revealed a 16 per cent decline at the pre-tax level to £6.1m for the year to April 3.

The results – according to new accounting standard FRS 3 which, in effect, eliminates extraordinary charges – showed a £9m loss on the disposal of the business forms subsidiary. Excluding the loss, operating profits rose by 14 per cent to £18.1m on sales 4 per cent lower at £221.6m. The shares closed 11p higher at 230p.

Mr Martin Buckley, chief executive, said the disposal of business forms for £1.3m had eliminated annual trading losses of £1.8m.

Meanwhile, Waddington's core packaging operations in the US and UK had performed particularly well following the heavy capital expenditure programme of the last five years. Profits were ahead by 7 per cent to £12.3m on static sales of £125.6m.

The growth was expected to continue this year, with the most significant opportunities in the US.

The performance in packaging was dampened by a disappointing performance from the labels division. The loss of a substantial contract with Heinz last year had adversely affected this business, leaving it with losses of £900,000. However, this included one-off redundancy costs of £400,000. Mr Buckley expected the labels operation to approach break-even by the year-end.

The final dividend is maintained at 4.3p, for a maintained total of 7.9p. Earnings under FRS 3 fell from 4.93p to 3.19p. However, stripping out the loss on disposals, they rose from 11.6p to 13.71p.

Ferranti seeks cash injection

By Paul Taylor

FERRANTI International, which came close to collapse following the 1989 discovery of huge fraud in International Signal and Control, its US subsidiary, is seeking a strategic partner to take a minority equity stake and help strengthen its shrunken balance sheet.

Mr Eugene Anderson, chairman of the electronics and defence company since 1990, said it was looking for "a substantial cash injection," which would help ease tight liquidity problems and enable it to wipe out £19m of overdue creditors payments.

Ferranti has cut its bank borrowings from £700m to under £100m since 1989 and reduced its overdue creditors payments from £55m, but Mr Anderson said the process needed to be accelerated. "I should like to operate with a little less adversity," he said.

He said the group has already held talks with a number of unidentified potential partners but had not yet reached an agreement. Asked if Ferranti had been warned away from a rights issue, Mr Anderson answered that the group's financial advisers "believe the strategy we are following is the right one."

Yesterday the group reported a reduced, but slightly larger than expected £24.5m pre-tax loss in the year to March 31 compared to a restated £46.2m loss the previous year. The latest accounts have been produced on the basis of the new FRS 3 accounting standard.

Losses per share were 3.43p (4.71p). The share price fell 3p to 11¾p after the announcement.

Turnover fell to £230.9m (£362.6m) including £216.9m (£243.9m) from continuing operations and the group posted an operating loss of £5.6m (£9.7m) including a £3m (£3.3m) loss attributable to continuing operations.

The group also incurred non-operating costs of £7m (£23.8m), but interest costs declined to £12.2m (£13.5m).

Lowndes Lambert ahead 11%

RISING PROFITS from brokerage lifted pre-tax profits at Lowndes Lambert, the insurance broker, by 11 per cent to £10.3m in the year to March 31, writes Andrew Jack.

Broking profits more than doubled to £4.1m (£1.8m), while interest fell to £3.8m (£5.9m). The expense ratio improved from 96.7 per cent of brokerage to 92.4 per cent.

Turnover rose 11 per cent to £53.7m. Earnings per share emerged at 28p (25.8p). A final dividend of 9p brings the total to 13.5p (12.6p).

Mr Richard Shaw, chairman and chief executive, said rates were hardening and that there were significant opportunities for underwriting profits.

Acquisitions in the second half cost £5.1m, and included the fine arts broking arm of Crowley Colosso, Jeffreys Coates and Associates, Robert Barrow (Victoria) in Australia and Berkeley Burke in Hong Kong.

Ascot poised to return as loss is cut to £79.6m

By Maggie Urry

ASCOT HOLDINGS, the renamed Control Securities, incurred a pre-tax loss of £79.6m in the year to March 31, down from the previous deficit of £196.2m.

The property, brewing and leisure group finalised a financial restructuring on June 17 and its shares, suspended since October 1991, are expected to resume trading today.

Mr Howard Dyer, the new chairman, said the 1992-93 year had been "traumatic" with "the very survival of the group in jeopardy". With the refinancing now in place, though, the group "is entering a period of stability." It aims to sell assets to cut debt, while concentrating on its pub activities.

Mr John Kerslake, finance director, said the group was achieving disposals in line with the business plan agreed with the banks. However, selling properties on yields higher than current interest rates would have an adverse impact on profits.

He said trading was difficult in the pub estate, with a price war raging, although occupancy rates were improving at the hotels. The Belhaven brewery, which is for sale, had increased market share. Retail properties were in demand.

The balance sheet at the year end showed negative net worth of £50.6m. The accounts have been qualified by the auditors on a going concern basis.

A pro-forma balance sheet, taking account of the restructuring, showed a net deficit of £16.4m, an improvement of £34.2m, which relates to the exchange of £89m of bonds for £66.8m of new bonds plus convertible shares. Bank debt stood at £163.2m at the year end.

Group turnover rose from £97.9m to £120.4m but this included asset disposals. Operating profits fell from £25.9m to £22.2m, but associate losses were down from £1.5m to £118,000.

Exceptional costs were £71.7m (£193.4m) most of which were revealed in the interim figures. Interest charges were £30m (£27.3m). The retained loss was £80.9m (£192.4m) with losses per share 21.8p (51.8p).

Brent Walker pays £240,000 compensation

Directors who left Brent Walker, the pubs, betting shops and property group, during 1992 received compensation of £240,000 for loss of office.

During the year Lord Kindersley, the chairman, resigned. The compensation did not include payments to Mr Ken Scobie, who resigned as chief executive in January this year, or Mrs Jean Walker, wife of former chairman Mr George Walker, whose compensation was fixed after the year-end. Those payments together are expected to exceed £1m.

The accounts show the highest paid director received £638,000 during 1992. This was Mr John Brown, head of the betting shop division, who was entitled to a bonus of £467,000 relating to Rapid Raceline, a business he set up and sold to William Hill.

BTR makes $34m disposal

As part of its divestment of peripheral businesses acquired as part of the Hawker Siddeley Group in 1991, BTR has sold the Hawker Fusegear group of businesses to Cooper Industries of the US for $34m (£22.7m) cash.

At the announcement of BTR's annual results for 1992, the UK industrial conglomerate had already sold peripheral businesses and assets worth £270m. BTR bought Hawker Siddeley for £1.55bn.

£0.65m pay-off for Babcock chief

Babcock International paid £646,000 in compensation to Mr Oliver Whitehead, who left the engineering group as chief executive in April after disagreeing with the board over strategy.

Mr Whitehead, who was on a three-year rolling contract, had received a salary of £273,174 for the year to March 31, down from £322,434 because of the impact of a bonus payment in the previous year.

Debenham Tewson advances to £2.9m

By Peter Pearse

DEBENHAM TEWSON & Chinnocks, the quoted property adviser which merged with Bernard Thorpe, a firm of chartered surveyors, in a deal worth £10.9m in February, yesterday reported a rise in pre-tax profits from £1.59m to £2.86m for the year to April 30.

Mr Richard Lay, chairman, said that Thorpe's 10-week contribution coincided with its "historical heavy weighting of profitability" in its final quarter. Of the enlarged group's operating profits of £3.1m (£1.68m), £2.06m came from DTC and £1.05m from Thorpe. Mr Lay said that Thorpe's contribution represented virtually its whole year's profits. "In that respect, we timed the merger well," he said.

DTC was strong in London and the south-east, he added, and Thorpe was very strong in the regions. That made the merger – known as DTZ Debenham Thorpe – "one of the most significant advances in our industry in recent times", Mr Lay said.

Group turnover of continuing businesses totalled £41m (£34.8m), to which Thorpe pitched in £5.75m. Mr Lay said that "after the most appalling recession", there was now a change of mood.

A final dividend of 1.8p (1.5p) lifts the total to 3p (2.5p), payable from earnings of 5.13p (2.76p).

Celsis valued at £60m as placing is oversubscribed

By Richard Gourlay

SHARES IN Celsis, a new medical diagnostic company, were yesterday placed at 100p, valuing the company that hopes to replace the laboratory agar plate, at about £60m.

Panmure Gordon said the placing of 15m shares with institutions was comfortably oversubscribed. The intermediaries offer of 7m shares, which have been conditionally placed, closes on Friday.

The company will raise £12.4m from the float. Existing shareholders have sold 9m shares.

In a novel development related to bio-technology and start-up companies, the Stock Exchange has insisted that no existing shareholders can sell any of their holdings for two years.

This condition forms part of new rules being developed to allow new bio-tech companies to come to market without a track record.

Celsis is developing a system for rapid diagnosis of microbial contamination which it hopes will replace the agar plate.

The company does not expect to launch the product till the end of next year and will not make make significant profits until 1995.

● COMMENT

Celsis has clearly generated strong support among institutions. Part of this is no doubt the result of the impressive team Chris Evans, the founder, has brought together. Part will stem from a desire to build a portfolio in the new and potentially exciting bio-science sector, which seems also likely to include a number of diagnostic companies. But companies like Celsis, with no proven product, remain stocks to leave out of Granny's portfolio – unless she is a high roller. Reasons for why Celsis should be valued at £60m – not £80m, £40m or less – are more elusive than brief explanations of the use of bio-luminescence reagents in microbe detection.

British Bio-technology £13m loss 'within budget'

By Richard Gourlay

BRITISH Bio-technology, the pharmaceuticals group that floated last year with a market capitalisation of £150m, yesterday reported losses of £13.1m, "well within budget".

More importantly for a loss-making start-up company that is investing across a number of development projects, British Bio-technology said it had limited the cash outflow to £14.5m and still had about £50m of cash in the bank.

The pre-tax loss rose from £11.6m and cash outflow increased from £11.8m in the year ending April 30 1992. Losses per share were 37.5p (44.9p).

The group also said it had agreed in principle to sell British Bio-technology Products, its research reagent and assays subsidiary, to Techne Corp of the US for $2.3m (£1.53m) in cash.

Techne is also to make research payments of $5m over four years in exchange for diagnostic product rights.

Mr Keith McCullagh, chief executive, said the group had taken the view it was a drugs company and would prefer to sell its products business rather than spend more to expand it.

He said the group had passed the milestones it said it would pass at flotation. From two drugs in clinical trials, the group now had five in trial. Three of these were in Phase II clinical trials.

Mr McCullagh said that historically the biggest capital value increases for successful US companies had been enjoyed when their drugs were going through the Phase II clinical trial phase. "We are well past the maximum risk point," he said.

● COMMENT

With another tranche of development capital almost certainly required in the next two years – long before any profits become visible – one wonders whether British Bio-technology shouldn't still be financed by venture capital. Granted the company has hit the targets for pushing drugs into phase II clinical trials. And it has the highest reputation for research and can boast alliances with the likes of SmithKline Beecham and Glaxo. But British Bio-tech's research programme remains tiny by pharmaceutical industry standards, however novel some of the underlying science. The research may simply not pay off and investors could be left with few other eggs in few other baskets. Or perhaps not. The trouble with the emerging bio-science sector in the UK is that, unlike in the US, stock analysts and institutional investors with real knowledge of bio-science are all too scarce. Investing in the sector will undoubtedly have its thrills – but for some time will resemble a visit to the gaming table.

DIVIDENDS ANNOUNCED

	Current payment	Date of payment	Corres-ponding dividend	Total for year	Total last year
Birkby ....fin	2.53	Sept 13	-	3.53	-
Caledonia Inv ....fin	10	Aug 11	9.6	15	14.4
Debenham Tewson ....fin	1.8	-	1.5	3	2.5
Domino Printing ....int	2.65	Sept 9	2.4	-	7.2
Feedback § ....fin	1.5	Aug 16	nil	1.5	nil
Fleming Inc/Cap ....int	1‡	Aug 1	1	-	4.725
Halma ....fin	1.6	Aug 23	1.332	2.636	2.195
Heavitree § ....int	0.8	Aug 6	0.6	-	3.05
Lister ....fin	0.1	Oct 29	0.1	0.1	0.1
Lowndes Lambert ....fin	9	Oct 1	8.4	13.5	12.6
MS Intl ....fin	1.5	Sept 13	1.5	2.5	2.5
Securicor ....int	0.732	Sept 24	0.665	-	2.82
Security Service ....int	1.533	Sept 24	1.394	-	5.024
Seeboard ....fin	14.3	Aug 23	12.25	20	17.25
Sindall (Wm) ....fin	0.1	Sept 30	nil	0.1	1.5
Waddington (J) ....fin	4.3	Aug 11	4.3	7.9	7.9

Dividends shown pence per share net except where otherwise stated. §USM stock. ‡First interim.

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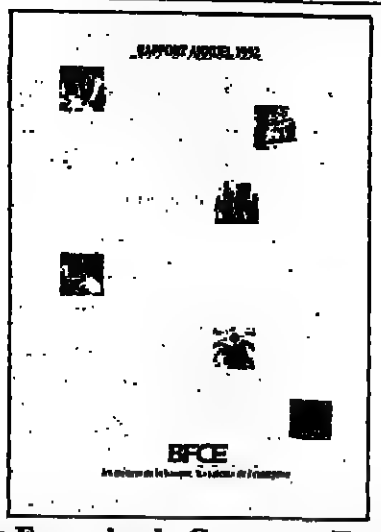

Banque Française du Commerce Extérieur

A reliable banking partner to a dynamic corporate and institutional clientele operating in the international markets. BFCE offers corporations diversified financing instruments as well as new and highly innovative products to manage their payments in France and worldwide. The Bank solves currency and interest rate risk management problems and provides a full array of investment instruments. BFCE is expanding services for merger and acquisition and equity financing, through its subsidiary, Société Financière de la BFCE.

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Ciments Français

Ciments Français is a leading international producer of cement and construction materials.
The company's business is built on a strong position in its main markets: France, the rest of Europe, including Mediterranean basin and North America. The combined strengths of Ciments Français and its majority shareholder Italcementi, put the group at the forefront of the industry around the world.

Financial Highlights

- Net Sales (1992): 14.9 billion French Francs
- Workforce: 15,000 persons

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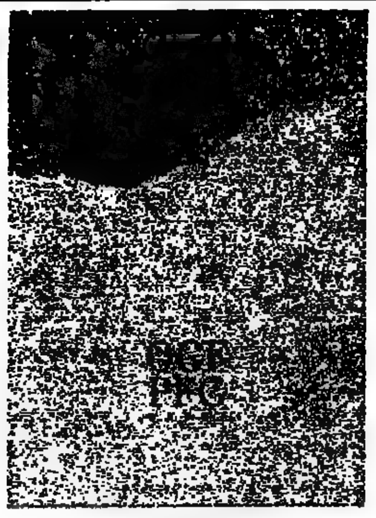

OGF/PFG

OGF-PFG is the mortuary services division of Lyonnaise des Eaux-Dumez and brings together companies specialised in services to communities and individualised services to families. Its principal activities are funeral directing, casket-making and memorial masonry. These, together with its property and funeral pre-need insurance businesses, form a strong and integrated group.
In 1992, OGF-PFG broadened its services to families while upgrading its campaign to enhance its professional and corporate image with the general public.
With a workforce of 8,500, turnover in excess of FF2.8 billion and 240.000 funeral services directed annually, OGF-PFG is the world leader in its field.

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Lyonnaise des Eaux-Dumez

With its 120,000 men and women working on five continents, the group Lyonnaise des Eaux-Dumez - through the complementary strengths of its construction and services sectors - contributes daily to bettering the environment and the standards of living in communities worldwide.
Principal sectors of activity:

- Construction and urban development,
- Environment-related services,
- Services to communities.

Key figures: Consolidated turnover: FRF 90.4 billion, Cash flow FRF 5.2 billion, Investments: FRF 9.9 billion.

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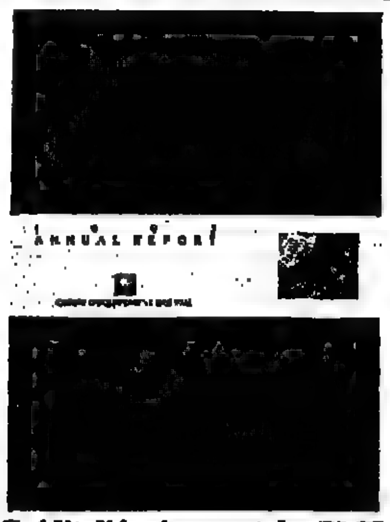

Crédit d'équipement des PME

The CEPME group finances the development of small and medium sized businesses through a complete range of products: medium and long term loans, property and equipment leasing, equity investment, short term overdraft lending and corporate finance advice. With around 200 account managers split between the fifteen regional centres and forty one offices, the CEPME is present throughout France. Over 120,000 businesses currently benefit from financing provided by the CEPME.

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Crédit Foncier de France

Founded in 1852, Crédit Foncier de France is one of France's leading real estate finance and mortgage institutions. Today, with total assets of FF 359 billion, Crédit Foncier is active in all aspects of the French real estate markets. To fund its extensive range of activities, Crédit Foncier is a major issuer in the French and international bond and money markets.

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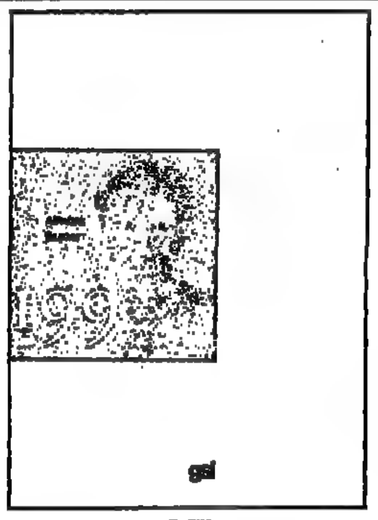

GSI

GSI is one of the leading information services companies in Europe.
Its mission is to serve companies by providing them with services (software packages, outsourcing, application management, and engineering) necessary to the implementation of efficient information systems capable of accompanying their development over the long term.
In 1992, GSI's 3,616 employees generated FF 2,573 million in revenue and FF 85 million in net income in Europe, the Far East, and North America.

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SCA

SCA is a consumer-oriented forest industry company whose focus is on hygiene products, packagings and graphic papers, and ranks as Europe's largest private owner of forest land. SCA employs a work force of approximately 29,000 in some 20 countries, half of whom are employed within the EC. Markets outside Sweden account for about 80 percent of sales.
SCA in brief: Net sales SEK 32,137 M (32,760). Earnings after financial net SEK 451 M (1,225). Net earnings after tax SEK 6,200 M (901). Earnings per share after full tax SEK 2.06 (5.27). Equity/assets ratio, percent 41 (28). Shareholders' equity incl minority interest SEK 19,091 M (11,832).

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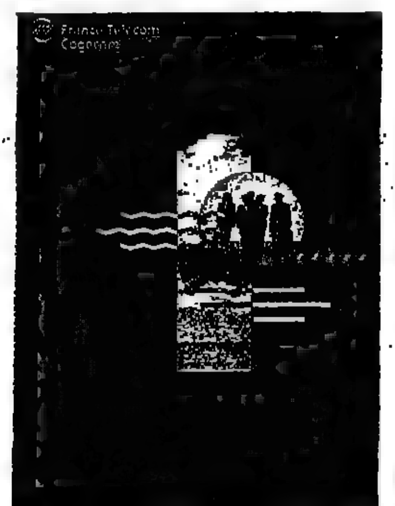

France Telecom Cogecom

Cogecom is a holding company which amalgamates all the subsidiary and affiliated companies of the France Telecom Group, representing over 150 companies operating in all areas of communication technology.
With a workforce of 13,000, Cogecom's key consolidated figures for 1992 are:

- total sales: 15,425 (in millions of French francs)
- investments: 4,531
- funds generated from operations: 2,713
- operating income: 1,611
- net profit, after tax Group shares: 367

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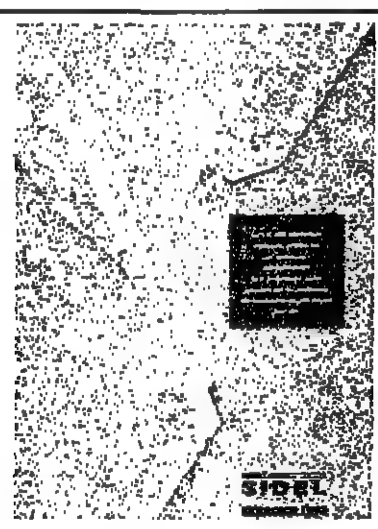

Sidel

Built around the SIDEL company, world leader in the design, manufacturing and marketing of plastic bottle producing machines, the SIDEL Group also manufactures filling and plastic wrap packaging machines.
Once again, in 1992 the SIDEL Group has combined strong growth with profitability: its consolidated sales figure reached 1535 millions FF - up 44% over 1991 -, and final results of 155.4 millions FF showed a 39% increase over last year. Exports accounted for 83% of all sales. In keeping with the LMBO of June 1987, it is currently researching plans for an introduction onto the stock market, which would foster the Group's continued development.

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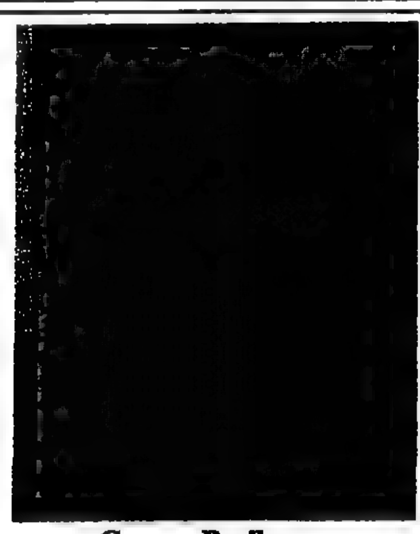

Groupe Paribas

Established simultaneously in France and The Netherlands in 1872, Groupe Paribas has evolved into one of the world's leading diversified banking groups, active in nearly 60 countries. Groupe Paribas' businesses are organised around four autonomous, decentralised units:

- Banque Paribas, an international corporate bank;
- Compagnie Bancaire, a group specialising in financial services
- Crédit du Nord, a French retail bank;
- Paribas Affaires Industrielles, which combines all of the equity investments in industrial and commercial companies.

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Caisse des Dépôts Group

In 1992, Caisse des Dépôts et Consignations and the CDC Group carried forward their strategy, primarily focussed on public interest activities: increased financial support to public housing and local authorities; continued support to national and local policies aimed at revitalising urban and suburban areas; management of large retirement programs and France's public debt... In addition, as a major institutional investor, CDC contributes to the liquidity of the French capital markets. Total assets of Caisse des Dépôts' Central Sector amounted to FF 574 billion at 1992 year end, an increase of 25% primarily due to growing capital market activities. Net income totalled FF 2,16 billion.

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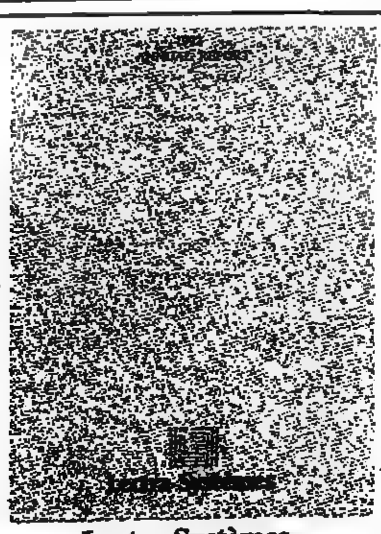

Lectra Systèmes

Lectra Systèmes leader in CAD/CAM systems for the apparel, car seats, upholstery, footwear, technical fabrics industries develops, produces and supplies equipment, software and services to automate companies from shape creation to fabric cutting.
In 1992, the company realised a turnover of 714 MF (including 83% out of France) with a 3MF net income.
24 subsidiaries, 1000 people with 500 working for services, a 20 years' experience acquired with 4500 customers worldwide, 20000 work stations equipped with Lectra application software, 1050 cutters, a 130 people research team are Lectra's assets which ensure the company's development.

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Roussel Uclaf

A world-class pharmaceuticals group and a leader in Europe, Roussel Uclaf has three core business areas: healthcare, agroveterinary, and fine chemicals. In 1992 its consolidated sales were FF 14,812 million (up 3.2% over 1991) and net income, Group share, was FF 1,062 million. Headquartered in Paris, Roussel Uclaf recorded two-thirds of its 1992 sales outside France. It has identified as priority *countries Germany, the U.S.A., Italy, Japan* and the U.K. Over 11% of sales are invested in R&D to remain at the leading edge of its industry. In 1992, 75% of this budget was spent on pharmaceutical specialities, and in particular in four main therapeutic areas: antibiotics, cardiovascular, endocrinology, and immunology.

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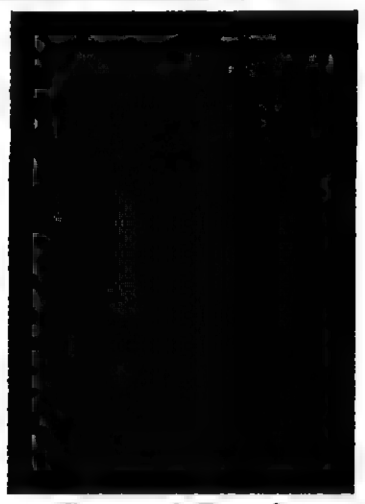

Compagnie Bancaire

Europe's leading group specialising in financial services for both corporate and consumer clients. Compagnie Bancaire manages the federal structure and is responsible for funding the group's lending activities.
1992 key figures
FF 66 billion (US $12) of new loans distributed
FF 228,8 billion (US $ 41,5) of outstanding loans managed
FF 58,1 billion (US $ 10,5) of savings managed
Consolidated net profit of FF 660 million (US $120)
8,832 men and women, including 1,650 outside France

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Elf Aquitaine

Elf Aquitaine is one of France's leading industrial groups in terms of sales and net income.
Elf Aquitaine has one of the highest market capitalisation on the Paris Bourse.
The company has also been listed on the NYSE since 1991.
The Group is one of the 10 largest oil and gas companies worldwide. It is also very active in chemicals and has a solid position in the health sector.

1992 sales	FF 200.6 billion
1992 Net income	FF 6.2 billion

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Eridania Béghin-Say

One vocation, five activities. In the transformation of agricultural raw materials, the group is positioned in indispensable basic food products: sugar, starch products, oils and proteins. In the consumer products sector, its strength rests on established brand names in oils, condiments, spices and sauces.
In all its activities, the group holds leadership positions which make it a worldwide agro-industrial protagonist.

1992 consolidated key figures

Turnover	49,741 FRF million
Operating income	3,618 FRF million
Net Income (group share)	1,278 FRF million

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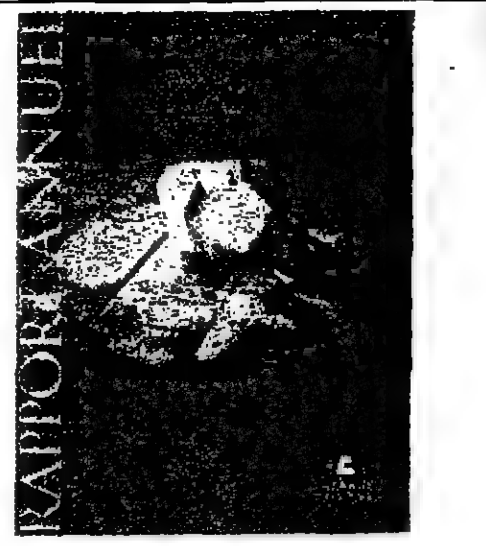

Lafarge Coppée

Lafarge Coppée is one of the world's foremost producers of building materials, with leading positions in each of its business areas: cement, concrete and aggregates, gypsum, specialty products and bioactivities.
In 1992, a difficult year in which diverse market conditions prevailed, the Group maintained its level of financial results, with FRF 30.4 billion in consolidated sales and FRF 1,228 million in net income, group share.
The geographical spread of its activities and its balanced product range, as well as its sound investment policy and financial management, allow Lafarge Coppée to pursue its long term strategy of international growth.

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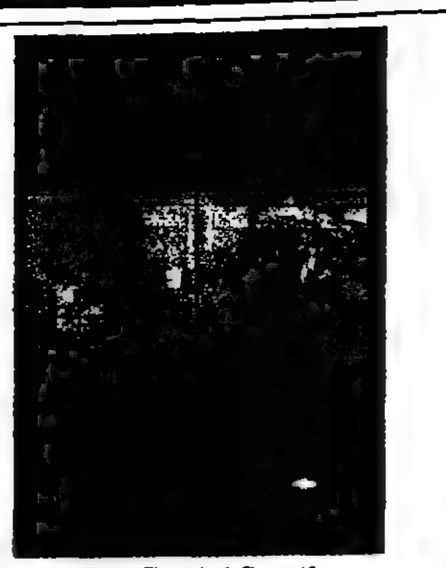

Cap Gemini Sogeti

Cap Gemini Sogeti, an independent and public group with about 21,000 employees, is one of the leading computer services companies in the world and the largest in Europe.
In 1992, Cap Gemini Sogeti realized consolidated revenues of FF 12 billion (+18.5%) of which 70% were generated outside France.
The Company's leadership is acknowledged in all advanced software technologies.

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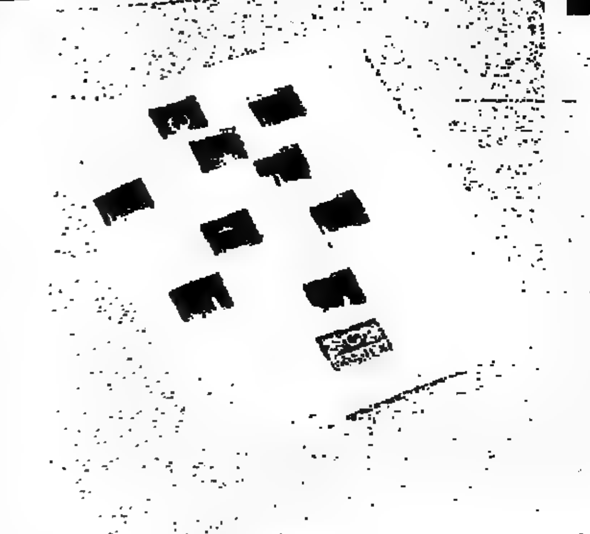

Essilor

Essilor is the world's leading manufacturer of ophthalmic optical products, a position it owes to major innovations in the field of vision improvement. Its international infrastructure is unparalleled in the industry. From production plants in Europe, the United States, Brazil, and Southeast Asia, semi-manufactured lenses and the full range of Essilor products are shipped to local finishing and distribution subsidiaries in sixty countries, covering the entire industrialised world.
Essilor is a highly international organisation *that derives 72% of* sales outside France while holding a strong position in the French market.

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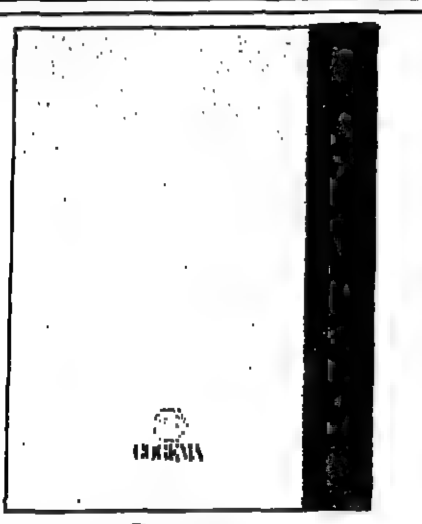

Cogema

Cogema is a world leader in the nuclear fuel cycle. Cogema may provide customers with uranium concentrate (yellow cake), and/or services in conversion, enrichment, reprocessing and recycling of nuclear materials and nuclear engineering. In 1992, its consolidated turnover amounted to FF 22.6 B and earnings (group share) to FF 507 M. Cogema widened its industrial base last year by participating in the acquisition of Pechiney's nuclear activities, by taking majority control of Urangesellschaft - a German company specialising in uranium (mining and international trading) - and Krebs (oil and chemical engineering) and, finally, by acquiring a stake in SNPE-Ingénierie.

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CarnaudMetalbox

Europe's leading packaging manufacturer:
Focused on metal and plastic packaging:

- *Metal: 72%* • *Plastics: 23%* • *Other: 5%*

CarnaudMetalbox employs more than 30,000 people at 160 factories in 32 countries.
Geographic turnover:

- EEC: 86% • Asia, Africa and North America: 14%

Net attributable profit reached FRF 976 millions in 1992 up 15% on turnover of FRF 24 830 millions.

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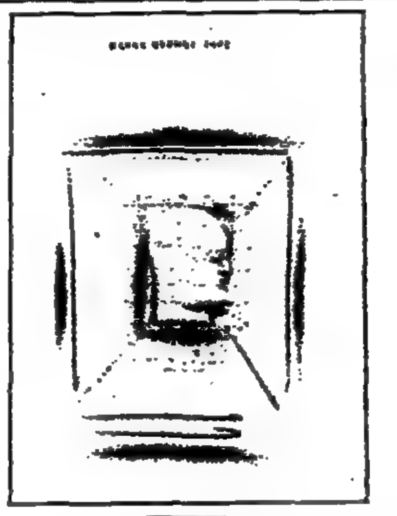

Havas

Created in 1835, Havas is now France's largest media and communications group.
Companies set up or acquired over the years are grouped in seven business areas, operating and investing both in France and abroad: Local Media, Directories, International Multimedia Sales, Tourism, Full-Service Advertising Publishing, Audiovisual.
Consolidated revenues 1992: FF 28.2 billion
Net income, group share 1992: FF 823 billion
Chairman and Chief Executive Officer: Pierre DAUZIER

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UAP

UAP, the leading French insurance group, felt the impact of the general downturn in the European insurance industry in 1992. UAP was also affected by difficulties in Scandinavia. Finally, Banque Worms was hard-hit by the impact of the property market crisis.
Yet UAP remains in a strong position. By maintaining its conservative policy on capital gains realisation, taking a tough stance on risk underwriting, making substantial productivity gains and developing its product range are the key points of UAP's strategy. Combined, they impart dynamism and keep the group on a very sound financial footing, ready to fully benefit from the impending upturn in the industry.

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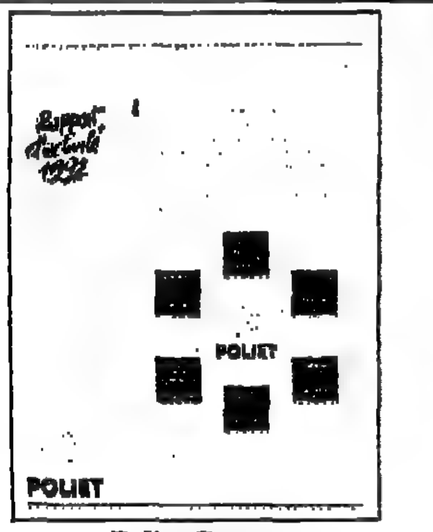

Poliet Group

The Poliet Group holds quite a unique position in the building sector.
Concentrating exclusively on the building materials area, it is both a large manufacturer and a large distributor.
Poliet is organized into six divisions which all contribute to the satisfaction of the needs of all customer segments that deal with the construction of buildings, and the rehabilitation and maintenance of dwellings, non-residential buildings and public works.
Thanks to these six business sectors, the Poliet Group realized in 1992 sales amounting to FRF 19.8 billion.

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Crédit Local de France

Crédit Local de France, France's principal lender in the municipal and regional development sector granted new loans totalling FF 42 billion to regional and local authorities in 1992. At the end of the year, total loans commitments amounted to FF256 billion, including FF 7.5 billion on international markets, where Crédit Local de France is developing its activities.
Net consolidated earnings have been growing steadily over the past five years and amounted to FF 1.2 billion in 1992.

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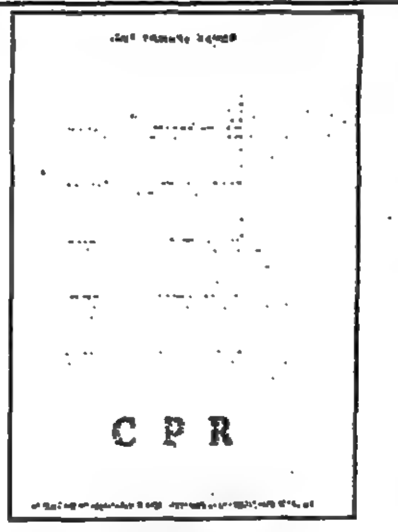

CPR Group

A dynamic French banking group active in 7 countries via subsidiaries and partnerships in:

- proprietary asset management
- asset management
- brokerage activities

1992 key figures (consolidated)

- capital basis: FRF 2.85 billion
- total assets: FRF 118 billion
- net profit: FRF 166 million
- funds under management: FRF 40 billion

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Idia

Idia is an investment company specialising in the agro-food sector.
Since its formation in 1980, the company has experienced constant growth in its activities and profits resulting from its specialisation in a solid and dynamic sector and the confidence placed in Idia by French agro-food companies.

- total investments: Ffr 1,443.1 million • number of investments: 542
- guaranteed funds: loans granted: Ffr 1,619.2 million
- net profit: Ffr 183 million

Idianova, a subsidiary of Idia , specialises in venture capital and mezzanine financing for agro-food companies.

- total investments: Ffr 168 million • total number of projects: 304

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Saint Louis

A CHANGE OF SCALE IN 1992. First-time consolidation of Arjo Wiggins Appleton has boosted the turnover of the Saint Louis Group from FRF 10.4 billion to 35 billion. Operating profit is now FRF 2,780 million, compared with FRF 902 million previously, while total net profit from operations has increased from FRF 777 million to 1,193 million.
TWO AREAS OF BUSINESS: Agri-foodstuffs and Paper:

- Saint Louis' agri-foodstuffs divisions Générale Sucrière and Euralim employ 8,500 people, with a turnover of FRF 8,500 million.
- Through Arjo Wiggins Appleton, Saint Louis generates a turnover of FRF 24 billion, with a work force of 19,000.

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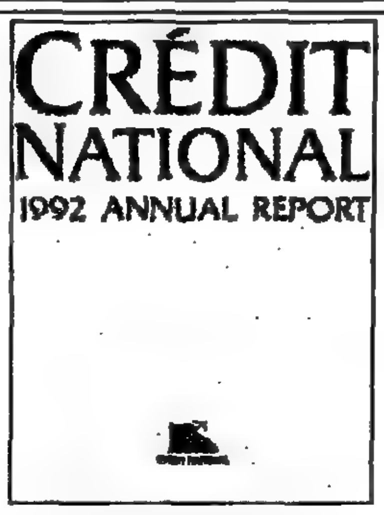

Crédit National Group

The vocation of the Crédit National Group is to act as the preferred financial partner of large and medium-sized French businesses. Its asset base gives it the financial standing to fulfil this role; its seventy-year history of serving French industry has given it the necessary expertise. We offer our customers all the financial know-how they need to support them as they grow: we are prepared to take on long-term risks, and are able to devise complex and competitive financing solutions. The group's commercial strategy is centred on four core businesses: corporate lending; equity financing; real estate; capital markets
Chairman and Chief Executive Officer: Yves Lyon-Caen

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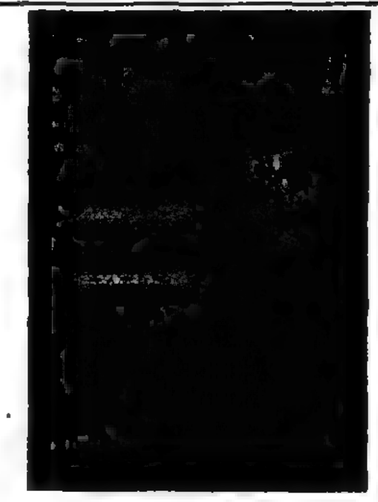

SEMA Group

Sema Group is one of Europe's leading consultancy and software engineering companies, serving the world market. In 1992 Sema Group's turnover was £416 million. Our team of 7,000 professionals is distributed in over 50 locations throughout the major countries of Europe and the Pacific Rim. The Group's network of integrated services covers the full spectrum of information technology: defining business and IT strategies, developing and integrating systems, supplying products and facilities management. We support customers from all sectors of industry, commerce and government in delivering major projects such as the Barcelona Olympics, the Channel Tunnel and command and control systems for nuclear power plants.

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PSA Peugeot Citröen

PSA Peugeot Citröen designs, manufactures and markets a broad line of automobiles and light utility vehicles under the Peugeot and Citröen marques.
It is Europe's third largest carmaker, with 12.2 percent of the market in 1992.
Worldwide production totals 2,049,800 vehicles.
In France, PSA Peugeot Citröen is the country's largest producer of passenger cars, with 30.4 percent of the market, and its leading exporter, with export sales of 73 billion French francs. In 1992, the Group reported net income of 3.4 billion francs on 155.4 billion francs in consolidated sales.
Chairman: Jacques Calvet

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Several hundred jobs to go in cost-saving exercise

Seeboard increases dividend by 15.9%

By David Lascelles, Resources Editor

SEEBOARD took the electricity sector's dividend increases to a new high yesterday by announcing a 15.9 per cent rise in its total pay-out, narrowly capping Northern Electric's 15.6 per cent rise announced on Monday.

Seeboard will also be favouring shareholders by advancing the payment date for the final dividend by six weeks to August 23.

The final is 14.3p, bringing the total for the year to March 31 to 20p.

At the same time, however, the company announced that several hundred jobs would be lost in a cost-saving exercise.

Sir Keith Stuart, chairman, said: "Seeboard delivered a strong performance in 1992-93 with increased profits, substantial progress in improving efficiency and positive action to reduce the cost of electricity for our customers."

Electricity prices for households and small businesses will be reduced by 3.3 per cent in September.

The Hove-based company announced a 14.5 per cent increase in pre-tax profit from £98.4m to £112.7m. Earnings per share rose 15.9 per cent from 53.5p to 62p.

The greatest part of the increase came from the supply business, where operating profit rose from £4.3m to £13.3m.

By contrast, the distribution business, which accounts for the bulk of earnings, was virtually unchanged at £91.9m. Units of electricity sold fell by 1.5 per cent, reflecting the recession.

Other activities, which include the retailing business, made an overall surplus of £1.5m, up from £300,000. Southern Gas, the company's one-year-old gas trading venture, made a trading profit of £700,000, and now has 700 customers at 3,000 sites.

Mr Jim Ellis, chief executive, said that the company was being restructured to create self-contained businesses and a smaller corporate head office at a new location in Crawley. This would reduce jobs by 500-600, on top of the 500 which the company has already shed since privatisation.

"There is a major cultural change going through the company to put the focus on profits, results and shareholder value," he said.

● COMMENT

Although the generous dividend helped boost the share price by 10p to 520p, the market was just as pleased by Seeboard's aggressive attitude towards costs. Its aim of being the industry's most efficient member puts it in a good position to deal with whatever comes out of Offer's pricing reviews. Management also took a conservative line on diversification yesterday, promising not to be tempted by its low gearing to undertake exotic ventures. At last night's close, the shares yielded just under 5 per cent, the lowest in the sector, confirming Seeboard's place as the market's favourite REC, but analysts warned that the early dividend payment could cause some disruptions.

Caledonia advances by 38% to £36m

By Maggie Urry

CALEDONIA Investments, the investment holding company 48 per cent owned by the Cayzer family, increased pre-tax profits 38 per cent, from £26.1m to £36m, in the year to March 31.

Net assets per share rose from 472p to 559p.

The shares rose 25p to 484p, compared to a price of 356p at which the group bought back 10 per cent of its equity a year ago.

Results benefited from a first time contribution from the 27 per cent stake in Exco, included for seven months, and a nine month (five month) contribution from the 45 per cent owned Bristow Helicopters.

Profits from trading activities – subsidiary and associate companies – rose from £6.9m to £15.7m.

Such trading profits are expected to increase as a proportion of the whole, but will mean slower dividend growth as the group believes a higher level of cover is needed from trading earnings than from investment income.

Income from investments fell from £18.6m to £12.9m, but the comparable figure included £6.8m from British & Commonwealth preference shares. Net interest received dropped from £12.2m to £11m, as rates were lower and net cash balances fell from £206m to £142m.

Cash represented about 30 per cent of shareholders' funds at the year end. Mr Peter Buckley, chief executive, said the net asset value might have risen faster had that money been invested during the year, but Caledonia had taken a selective attitude to investment opportunities.

There was a £700,000 loss on the sale of investments (£3.3m) and no new provisions were made, compared to a £5.3m provision the previous year.

Earnings per share were up from 18p to 26.1p, excluding the effect of losses and provisions, or from 24.1p to 26.9p including them.

A final dividend of 10p is proposed to give a 15p (14.4p) total.

Securicor ahead 27% despite flat outcome from Cellnet

By Angus Foster

SECURICOR, the security and communications group, yesterday announced a 27 per cent increase in profits despite flat results from Cellnet, its 40 per cent owned mobile telephone network.

Pre-tax profits rose from a restated £22.8m to £28.9m in the six months to March 31. The increase would have been a modest 7 per cent on a pre-FRS 3 accounting basis.

Security Services, the 50.75 per cent owned subsidiary where most of the group's operating companies are held, expanded profits 36 per cent to £20.1m (£14.7m).

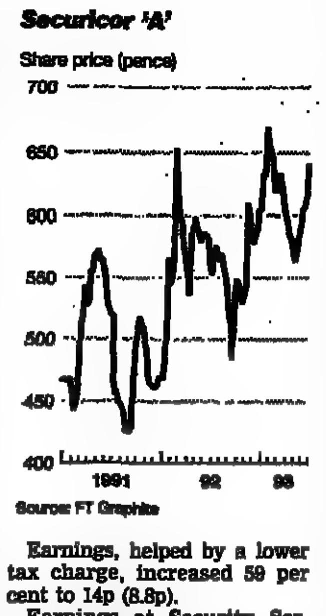
Mr Christopher Shirtcliffe, finance director, described the overall results as "impressive". Turnover increased 10 per cent to £317.6m, helped by last year's acquisitions of Federal Express' UK parcel business.

Cellnet's pre-tax contribution fell from £22.8m to £21.4m. Profits were dented by marketing costs for the new Lifetime service, launched six months ago. Neither Securicor nor BT, which owns the remaining 60 per cent of the network, has disclosed start up costs for Lifetime, which has built up just over 100,000 subscribers.

The security division lifted profits from £2.06m to £3.76m, although the rise was flattered by prior year restructuring costs.

Parcels, which operates as Securicor Omega Express, increased profits 10 per cent to £3.3m; but that stemmed from the Federal Express purchase and the company said overcapacity in UK parcels meant margins were slipping.

Securicor's communications division, which excludes Cellnet and mainly involves cellular retailing, continued to lose money because of its small subscriber base, although losses were reduced from £3.4m to £2.4m.



Earnings, helped by a lower tax charge, increased 59 per cent to 14p (8.8p).

Earnings at Security Services almost doubled, again helped by a lower tax charge, to 12.2p (6.3p).

Both companies raised their interim dividends by 10 per cent to 0.732p and 1.533p respectively.

● COMMENT

Results at the top end of expectations sent Securicor's A shares up 11p to 645p. After a poor start to the year, the shares have added 15 per cent since April as analysts became more sanguine about competition threats to Cellnet from new entrants like Mercury. The threat remains, of course, and its shadow can be seen in the unspecified start-up costs incurred to gain market share for Lifetime. But for the longer term the shares are underpinned by the eventual likelihood that BT will make Securicor the offer it cannot refuse. Until then the company's managed businesses offer solid, if unspectacular growth. Full year profits forecasts of £65m put the shares on just under 21 times, which looks about right.

Domino declines 19% as US drive fails to pay off

By Alan Cane

PRE-TAX profits at Domino Printing Sciences, the Cambridge-based continuous ink jet printer maker, fell 19 per cent, from £4.58m to £3.73m, at the half way stage in line with the warning in March.

Sales and gross profits were well ahead, but heavy investment in marketing and distribution in the US had so far failed to pay off, according to Mr Howard Whitesmith, group managing director.

Turnover for the six months to April 30 rose to £37.6m, an improvement of 22 per cent on the £31m recorded last year. Earnings per share were down 18 per cent at 9.35p (11.46p). The interim dividend is 2.65p (2.4p). The balance sheet shows net cash of £16.4m.

Gross profits grew 21 per cent to £16.3m (£13.5m) but selling and distribution costs rose 45 per cent to £8.31m, the result principally of taking on an additional 14 sales people, together with support staff, in the US in anticipation of a sales boom that had yet to arrive.

Mr Whitesmith believed potential customers were delaying purchases while they assessed the effect on business of the Clinton administration. He said there were indications that the situation would improve in the second half, traditionally the stronger part of Domino's business cycle.

Domino, together with Videojet, a US-based subsidiary of GEC, dominates the world market for industrial ink-jet printers, used to mark sell-by dates and batch numbers on a variety of foods, beverages and drugs. They are also used to imprint part numbers on fast moving production lines. Domino has only an 18 per cent share of the US market compared with 55 per cent in Europe.

According to Mr Gerald Dennis, chairman, sales in the UK and France were strong, but Germany and the Netherlands remained difficult. The boom in ink-jet printing resulting from legislation in Europe demanding the labelling of foods and beverages has now levelled off, and ink-jet printer makers are seeking new outlets for their products.

The shares, which fell 44p to 552p on the March profits warning, rose 6p yesterday to 469p.

Shares placed with institutions at 120p

£60m tag on Business Post

By Andrew Bolger

SHARES IN Business Post Group have been placed with institutions at 120p per share, giving the UK's biggest independent parcel and express mail company a market value of £60m.

The placing will raise £15m, of which £12m will go to the group and the rest to its owners, Mr Peter Kane, chairman, and his brother, Michael, managing director.

The price of the placing, organised by Barings and UBS, puts the shares on a historic earnings multiple of 17 and gives a notional dividend yield of 3 per cent and cover of 2.4 times.

Founded in 1971 Business Post has – in spite of recession – increased turnover over the past three years at a compound annual rate of 41 per cent. In the year to March, it made pre-tax profits of £4.2m on sales of £33.7m.

Peter Kane: rapid growth in profitability in the last three years

Mr Peter Kane said: "We have grown rapidly in size and profitability in the last three years. We believe that we only have a market share of 4 per cent in the UK and are confident that we can continue to expand our overnight parcel and express mail business."

He said some £6.4m of the flotation proceeds would be spent in the expansion of the group's national hub in Birmingham, the development of new regional hubs in Leeds, Manchester and Bristol, and – subject to finding suitable sites – the purchase and development of new regional hubs in Reading and central London.

An increase in operating margin to 14 per cent in the 12 months to March this year was attributed to further economies achieved by the opening of the Birmingham hub in 1992, and tight cost controls.

● COMMENT

Business Post has flourished impressively, not least by targeting smaller businesses which send a limited number of packages every day. It also eschews advertising, instead getting salesmen from the group and its franchisees to "knock on doors" of prospective customers. The placing was comfortably oversubscribed, and the shares are likely go to a comfortable premium when trading begins on Monday. However, liquidity will be limited by the vendors' decision to hold on to 75 per cent of the equity. The group seems confident of maintaining its rapid growth record but that is likely to be reflected in the rating – even after any stage exit.

Birkby calls for £9m to fund buy

BIRKBY, which is involved in the provision of managed workspace, vehicle hire and instalment credit, is calling for £9.2m, partly to fund the acquisition of Hill Hire, a specialist in the hiring of heavy commercial vehicles.

The rights issue, of 7.17m new shares, is on a 1-for-2 basis at 135p. It is underwritten by Charterhouse Tilney.

Birkby, which reversed into Finlan Group last August, also announced pre-tax profits of £1.1m for the year to March 31. As the results included the Birkby businesses for eight months they were not directly comparable with previous restated losses of £4.32m.

Turnover amounted to £11.7m (£19.5m). Earnings per share came through at 11.7p (1.2p losses) and a proposed final dividend of 2.53p makes a total of 3.53p.

Mr Michael Woodhead, chairman, said that Finlan's two remaining trading businesses, Witting Brothers and New Range Systems, had had a difficult year.

Hill Hire is being acquired for an initial £4m in cash and £500,000 in shares. Further consideration, up to £2m, is profit related. In the six months to March 31 it made pre-tax profits of £424,000.

In addition to funding the acquisition, proceeds from the rights issue will be used to provide further working capital for the expansion of all the group's main divisions.

Danka makes three acquisitions in US

DANKA BUSINESS Systems, which distributes office equipment and related supplies and services in the US, has made three acquisitions there which will add \$21m (£14m) in revenues to its existing operations.

The acquisitions of Layne's Copy Product Company, Business Copy Products and Midwest Toner Distributors and its five affiliated companies, brings the total number of purchases announced by Danka since April 1 to seven.

Danka will issue shares for the outstanding stock in Virginia-based Layne's in a \$2.9m deal. In 1992 Layne's reported revenues of \$5.9m and pre-tax profits of \$532,000.

BCP, a Minolta and Savin copier dealer in Lubbock, Texas, reported revenues of \$2.8m and pre-tax profits of \$400,000 in the year to June 30 1992. Danka will pay \$1.35m in cash and assume certain deferred revenue liabilities up to a maximum \$300,000.

Danka will issue 209,000 shares and pay \$1.14m cash for Midwest, which operates out of a distribution centre in St Louis, Missouri. In the year ended June 1992, Midwest reported wholesale and retail revenues of \$7m and \$5m respectively and pre-tax profits of \$500,000.

Sindall loss deepens to £4.74m

WILLIAM SINDALL, the civil engineering contractor, saw pre-tax losses deepen from £4.19m to £4.74m in 1992.

Turnover fell to £45.4m, against £64.1m.

Losses per share were 83.3p (64.5p). After the interim was passed, a nominal 0.1p final dividend is proposed. Last time there was a total of 1.5p.

Rodime at \$0.8m but warns on year

By James Buxton, Scottish Correspondent

RODIME, the disk drive pioneer which now strives to make its living by licensing and patenting its technology, stayed in the black in the six months ended March 31 1993, making a pre-tax profit of \$815,000 (£543,000).

However, the company warned it might not be able to maintain the profitable trend over the full year. In the comparable period Rodime incurred a loss of \$644,000 but turned that into a profit of \$1.69m by the year-end.

The Scottish company, which produced the first 3.5 inch disk drive in Scotland in the early 1980s, is suing Seagate, the big US disk drive maker, for wilful infringement of its patents. It is also in litigation with Maxtor and Quantum, two other leading US disk drive makers.

Mr Peter Bailey, managing director, said the litigation with Seagate was "making progress" but the case was not expected to come to court in the US until the first half of next year. Rodime successfully sued International Business Machines for patent infringement in 1990. It believes a victory over Seagate, which it alleges has infringed its patents on about \$3bn worth of products, could be lucrative.

Mr Bailey said several other disk drive makers which Rodime claims have infringed its patents were waiting for the outcome of the Seagate case before settling with Rodime. The company had planned on at least some of them settling before the Seagate case was concluded, reaching licensing or patent agreements and paying money to Rodime.

It has negotiated increased facilities with the Bank of Scotland as it could be faced with increased litigation costs and reduced licensing income.

Rodime achieved only one license agreement in the half year, receiving a "modest single payment" from Sony Corporation of Japan.

NEWS DIGEST

Aukett cuts operating deficit

CONCENTRATING on corporate markets is beginning to show benefits for Aukett Associates, which provides integrated design and management services.

In the six months ended March 31 it cut its operating loss from £372,000 to £136,000. There were no exceptional charges this time, against £202,000.

However, the pre-tax deficit doubled to £2.35m (£1.16m) after losses of £2.1m on sale of discontinued operation (£586,000 against investment in associate), losses from associates of £124,000 (£129,000), and net interest payable of £32,000 (£70,000).

Mr Gerry Deighton, chairman, said he could not judge whether the company had turned the corner, but believed current signs were encouraging.

Reductions in operating costs implemented over the past 18 months were expected to show real benefits over the next 12 months.

They will be further enhanced by the "considerable reduction" in borrowings following the sale of Nathaniel Lichfield to management for £1m.

Losses per share came to 16.91p (7.31p).

16% decline at Walker & Staff

In the year ended March 31 pre-tax profit at Walker & Staff Holdings was reduced by 16 per cent, from £610,000 to £512,000.

Turnover came to £7.12m (£8.35m).

An unchanged dividend of 5p has already been paid. Earnings per share dropped to 15.5p (18.5p).

The group distributes valve and pipeline equipment.

MS Intl moves ahead to £460,000

MS International, the Doncaster-based engineer, lifted pre-tax profits to £460,000 for the 12 months to May 1.

The outcome, on turnover of £28.8m (£30.5m), compared with £251,000 last time, or a deficit of £1.52m restated for FRS 3.

At the operating level, profits jumped 90 per cent, from £330,000 to £626,000. Mr Michael Bell, chairman, said the increase was achieved despite the lack of recovery in the group's markets. "There remained a distinct reticence by customers to commit for capital projects", he said.

Net cash balances of £430,000 at the year end compared with borrowings last time of £780,000.

Earnings per share emerged at 1p (losses of 5.5p under FRS 3) but the proposed final dividend is held at 1.5p to maintain the total for the year at 2.5p.

Heavitree ahead of budget with £0.4m

Heavitree Brewery, the USM-traded pub operator, produced profits of £401,000 pre-tax for the six months to April 30, against £232,000 last time, restated for FRS 3.

Mr William Tucker, chairman of the Devon-based group, said the outcome – struck after interest charges reduced from £309,000 to £197,000 – was some 2.5 per cent ahead of budget. "There is good reason to anticipate that the full year will see a return to our previous levels of profit," he added.

Turnover showed little change at £3.85m (£3.83m).

The Heavitree Inns subsidiary incurred an operating deficit of £80,000 but was on course for a profitable year, Mr Tucker said.

The interim dividend is maintained at 0.6p, payable from earnings of 3.2p (1.8p) per share.

Feedback shares advance 17p

Shares in Feedback, the USM-quoted high technology equipment manufacturer, rose 17p to 65p after the company reported a continuing recovery and a return to the dividend list.

On turnover of £9.84m (£9.13m) pre-tax profits were £1.06m for the year to March 31, against losses of £366,200. The company returned to profits at the interim stage.

Earnings per share came out at 7.66p (loses 3.37p) and a final dividend of 1.5p is recommended.

The company said the turnround was achieved by cost reductions and firm financial control.

Boscombe Property ahead to £520,000

In the year to March 31 pre-tax profit at Boscombe Property rose from £351,000 to £520,000, leading to earnings ahead from 262.25p to 367.73p.

Rental income increased 10 per cent to £897,000 and expenses relating to repairs and maintenance at San Remo Towers fell.

Contracts have been exchanged for the sale of San Remo at a price of £5.45m.

Dividends totalling 355p (180p) have already been paid.

Unigroup gets offer for Pharos stake

Unigroup, the timber and building materials group, has received an approach from Antah Holdings, one of its shareholders, to acquire its remaining 60 per cent holding in Golden Pharos.

As part of the deal Antah is willing to offer other Unigroup shareholders the opportunity to acquire shares in Pharos.

Earlier this year Unigroup floated 35 per cent of Pharos on the Kuala Lumpur stock exchange.

NatWest disposal in Australia

National Westminster Bank has sold the retail banking assets and liabilities of NatWest Australia Bank in South Australia and Western Australia to Challenge Bank.

The assets comprise commercial loans, mortgages, leases and overdrafts. NWAB corporate banking and treasury operations were unaffected by the transaction.

COMMODITIES AND AGRICULTURE

Court turns down German challenge to banana regime

By David Gardner in Luxembourg

GERMANY YESTERDAY lost its battle to get the European Court of Justice in Luxembourg to suspend the controversial new EC banana regime, which comes into force tomorrow.

The regime puts a 2m tonnes quota on European Community imports of Latin American, or "dollar zone" bananas, subject to 20 per cent duty, and an Ecu850- (£650-) a tonne tariff, equivalent to 170 per cent, on imports above that level. The measure is designed to protect higher-cost banana producers in the EC's outlying territories and former colonies, to which it is bound by the Lomé trade and aid convention.

The new regime also distributes 30 per cent of the dollar banana quota among traditional importers from the Lomé countries, effectively allowing them to cross-subsidise their operations.

Senior Brussels officials say the banana regulation has been the most lobbied issue in EC history, and the community still faces action by the Latin American producers through the General Agreement on Tariffs and Trade.

Germany, backed by the Benelux countries and German banana importers, argued that it was protected by a "banana protocol" to the EC's Treaty of Rome, guaranteeing it unimpeded access to the fruit. Germans ate the majority of the 2.4m tonnes of dollar bananas the EC imported in 1991, out of total consumption of 3.7m tonnes.

Bonn and the German importers also claimed the measure amounted to an expropriation and redistribution of market share, which it would not be possible to reverse once the new rules took effect.

The court yesterday ruled that the new regime did not cause "serious and irreparable damage" to Germany, because the regulation, passed by a majority of the 12 in February after six years of wrangling, allowed the European Commission to rectify "eventual difficulties". Brussels says it will raise the quota in line with demand.

Lawyers acting for dollar banana importers say judges were irritated by a flood of new pleadings. Germany argued for its own exemption – impossible to work in a border-free single market – and then for raising the quota to 2.9m tonnes.

Brussels in the interim produced revised EC figures, showing that the community imported only 2.2m tonnes of dollar bananas last year, and not, as previously thought, 2.8m tonnes.

Colombia gives go-ahead for BP consortium's oil development

By Sarita Kendall in Bogota

THE COLOMBIAN government has given the go-ahead for the development of the Cusiana oil fields, discovered by British Petroleum and its partners Total, Triton and Eco Petrol. BP estimates crude reserves for the Cusiana and Cupiagua structures in the eastern Andean foothills at 2bn barrels, though the state oil company Eco Petrol tends to be more conservative. There are also large gas deposits.

Production will rise from 10,000 barrels a day to 150,000 b/d by the end of 1995, with the state companies sharing development costs. Investment in this first phase is expected to reach about US$1.2bn and involve the expansion of the central pipeline, which runs from the eastern plains across the Andes mountains. A 1,600 hectare (3,950-acre) settlement-free zone has been established around Cusiana in an attempt to cut off guerrilla access.

A second stage of development could take output above 600,000 b/d in 1998. That would mean investing another $5bn or more, depending on the exact production level and which of various transport options was chosen: one possibility would be the use of the Cano Limon-Covenas pipeline as output from Cano Limon declines, another would involve taking the crude through Venezuela to the gulf of Maracaibo. Mr David Simon of BP said earlier this month at the Latin American energy conference that improved technology would allow very high well productivity and that the costs of drilling the deep Cusiana wells had fallen by 50 per cent.

Colombia produces about 450,000 b/d of crude at present and exports some 180,000 b/d. The Cusiana and Cupiagua fields ensure a big increase in foreign earnings and fiscal income from the mid-1990s – the discussion as to how the extra income should be used is hotting up. After 1998 Cusiana exports could be bringing in $3bn to $4bn a year, equivalent to half of Colombia's current total exports. Despite the need for spending on infrastructure and social projects economists are worried about inflationary pressures and exchange rates. International reserves are already high at $8bn and exports are losing competitiveness because of the slowdown in devaluation. Part of the Cusiana income may be frozen for the future and some used to pre-pay foreign debt.

Although the Cusiana discovery has focused interest on Colombia – particularly on the eastern plains – some foreign companies are discouraged by guerilla problems and tax rates. Exploration drilling has dropped off in the last two years and Eco Petrol is offering some of its "reserved" areas in an attempt to boost interest. To help fund refining and pipeline projects the state company recently launched a $150m Eurobond issue, with immediate success.

Hungary to reorganise meat industry

HUNGARY PLANS a sweeping reorganisation of its meat industry to reduce excess processing capacity and strengthen a sector hit hard by the collapse of its traditional markets in eastern Europe, officials said, reports Reuter from Budapest.

Mr Gyorgy Rasko, state secretary at the agriculture ministry, said the consolidation scheme could allow enterprises carrying heavy debt loads, but otherwise able to compete, to refinance themselves with bonds that the European Bank for Reconstruction and Development would subscribe as the sole buyer.

He said the EBRD had reviewed the plan favourably but the Hungarian government still needed to approve it. In any event, Hungary would be forced to close some unprofitable plants, he added.

Alcoa shows the way with aluminium cuts

Kenneth Gooding and Laurie Morse on an attempt to forestall EC protectionism

MR PAUL O'NEILL, the idiosyncratic chairman of the Aluminium Company of America, believes aluminium production cuts are urgently needed to forestall protectionist action by the European Community against the Commonwealth of Independent States.

And who better to show the way than Alcoa, the world's biggest aluminium producer? So, with all the drama he could muster, Mr O'Neill announced late on Monday that Alcoa was to cut its annual primary aluminium production in the US by 268,000 tonnes or nearly 25 per cent and lay off 750 people in five States.

This action had to be taken because of "a lack of any mechanism to deal with the economic consequences of the dissolution of the former Soviet Union," he said. Alcoa had opted to make the cuts rather than to seek protectionist action by the US government.

Mr O'Neill believes in banging the drum hard when he has something important to say. The production cuts are deep – the deepest taken by any group since the aluminium market descended into turmoil in 1991 when it was engulfed by a huge surge in imports from the CIS. But more cuts are needed and it is clear that one reased Mr O'Neill made so much noise is that he hopes other western producers will follow Alcoa's example.

He also hopes the European Commission will get the message – that rather than resort to protectionism, the western aluminium industry must learn to live with the unpredictable and uncontrolled flood of CIS exports which have been boosting stocks and depressing world aluminium prices to their lowest level ever in real terms.

Until now Alcoa has made only marginal production capacity cuts and Mr O'Neill has argued that the western world's high-cost smelters, most of them in Europe, should close rather than Alcoa's, which are among those with the lowest costs.

Now he has changed his tune because the US producers face a new threat: the European Commission, using regulations that allow it to "safeguard" European industry, might impose draconian quotas on aluminium imports from the CIS.

The European Aluminium Association says CIS aluminium exports to Europe, the nearest big consuming market, rose from 123,457 tonnes in 1990 to 361,185 tonnes the following year and reached 582,000 tonnes in 1992. This has completely destabilised a market which last year consumed 4.76m tonnes of the metal.

The association suggests that modern EC smelters might be forced to close to make way for metal from polluting CIS plants. It has delivered a study to the commission which indicates the CIS aluminium industry's emission of hazardous substances is eight to ten times higher than European regulations permit.

"While we do not deny that the CIS has a place in our market, it is the abnormal quantities and the effect on prices that make some action necessary," said Mr Dick Dermer, the EAA president, yesterday.

Mr Bernard Legrand, who heads the aluminium activities of Pechiney of France, Europe's biggest producer, has suggested in the past that Europe has played its part in cutting high-cost capacity. Between 1982 and the end of 1992 some 665,000 tonnes of capacity was permanently shut in the EC area. In contrast, those North American so-called Lazarus smelters, which closed during the last recession, have come back into production. Last year Pechiney played its part by cutting 20 per cent from output at its smelters in France and the Netherlands.

If the European Commission was to impose quotas, the CIS metal would simply flow elsewhere, mainly to the US and Japan, the two other big consuming markets. Mr O'Neill is obviously concerned that this might lead to even lower prices in Alcoa's domestic market.

This is one of the arguments being used by the CIS aluminium industry in a written submission to the commission this week. Its new trade organisation, Intercomalum also pointed out that any drop in CIS income would make it even more difficult for the aluminium industry to carry out environmentally-necessary work at its smelters. There would also be less money for downstream joint ventures with western groups for such things as aluminium can production plants, which would absorb more CIS metal domestically.

Mr O'Neill said Alcoa will complete its production cuts at Badin, North Carolina; Rockdale, Texas; Warrick County, Indiana; and Wentachee, Washington in three weeks. It would make up for the shortfall in output by buying in the market. Mr O'Neill said that if Alcoa's production cuts helped to reduce world aluminium stocks and brought higher prices, this would more than offset the cost of the cuts. The industry needed prices of between 80 to 85 cents a lb was needed for the aluminium industry cover its full costs and invest in new capacity compared with about 56 cents yesterday. The industry would continue to "eat its capital" until prices went back to these levels and an industry that did not cover not only its operating costs but also its replacement costs was "going out of business".

Mr O'Neill pointed out that the aluminium industry was not alone in suffering from a flood of CIS exports. He predicted that eventually the problem would affect the west's high-technology sectors such as aerospace.

Mr Paul O'Neill: He bangs the drum hard when he has something important to say.

● London Metal Exchange traders had been expecting news of substantial aluminium production cuts for some weeks and prices have been buoyed up by these expectations. So, after an early upward burst yesterday following the Alcoa announcement, profit-taking sent the price for aluminium for delivery in three months tumbling back to end the day at $1,228.25 a tonne, down $12.50.

Analysts said more production cuts were needed, of at least the same size as Alcoa's, if any big impact was to be made on LME stocks, now at a record of nearly 2m tonnes. There is also a huge quantity of CIS aluminium unsuitable for the LME also in western stockpiles.

Reynolds Metals, the second-largest US aluminium producer, would not comment on rumours that it would follow Alcoa's lead.

Mr Angus MacMillan, research manager at Billiton-Enthoven Metals, part of the Royal Dutch/Shell group, estimated that the Alcoa cuts would still leave the western aluminium market with a supply surplus of 150.000 tonnes this year compared with one of 421,000 tonnes in 1992. He though consumption would rise from 15.47m tonnes to 15.6m while production in the west would fall from 14.89m to 14.85m tonnes. He put CIS imports at at 900,000 tonnes compared with 1m last year.

Temporary cuts in aluminium production (tonnes a year)

Location	Plant	Owner	Capacity	Location	Plant	Owner	Capacity
US	Troutdale	Reynolds	121,000	Germany	Essen	Alusisse-Lonza	90,000
	Ferndale	Alumax	64,000		Deltzijl/Voerde	Hoogovens	18,000
	Four smelters	Alcoa	310,000		Norf/Toging	VAW	138,000
	Goldendale	Columbia Alum.	36,000	Netherlands	Vlissingen	Pechiney	35,000
	Columbia Falls	Columbia Falls	49,000	Norway	Four smelters	Norsk Hydro	45,000
	Mead/Tacoma	Kaiser	68,000	Sweden	Sundsvall	Granges	20,000
	The Dalles	Northwest Alum.	5,400	Argentina	Puerto Madryn	ALUAR	13,300
	Mt Holly	Alumax	36,000	Mexico	Vera Cruz	Alcoa	100,000
Canada	Five smelters	Alcan	143,500	Indonesia	Asahan	PT Inalum	12,000
France	Three smelters	Pechiney	42,000	Brazil	Aratu	Alcan	27,000

Source: Billiton-Enthoven Metals

Lumber prices depressed

By Laurie Morse in Chicago

PROTECTING THE forest habitat of the the spotted owl supposedly drove North American lumber prices through the roof early this year as fears of wood shortages were raised.

The spotted owl controversy is still rife, but lumber prices have collapsed. The cost of 1,000 board-feet of Canadian spruce dropped from $475 in mid-March to $235 in early June, according to Madison's Canadian Lumber Reporter.

Traders explain that improved weather in the Pacific north-west has aided logging, while a slower-than-expected US economic recovery has dulled demand for houses, and hence for wood.

The US Commerce Department yesterday reported that May home sales fell 21 per cent to an annualised rate of 571,000 units, the largest decline in 12 years. Chicago lumber futures dropped on the news, with the July delivery price down $3.80 at $234.70 per 1,000 board-feet.

MINOR METALS PRICES

Prices from Metal Bulletin (last week's in brackets).

ANTIMONY: European free market 99.6 per cent, $ per tonne, in warehouse, 1,540-1,600 (1,550-1,610).

BISMUTH: European free market, min. 99.99 per cent, $ per lb, tonne lots in warehouse, 2.25-2.50 (same).

CADMIUM: European free market, min. 99.5 per cent, $ per lb, in warehouse, 0.44-0.50 (same).

COBALT: MB free market, 99.8 per cent, $ per lb, in warehouse, 12.30-13.20 (12.60-13.60); 99.3 per cent, in warehouse, $ per lb, in warehouse, 9.20-10.00 (9.40-10.40).

MERCURY: European free market, min. 99.99 per cent, $ per 76 lb flask, in warehouse, 115-135 (same).

MOLYBDENUM: European free market, drummed molybdic oxide, $ per lb Mo, in warehouse, 2.25-2.30 (same).

SELENIUM: European free market, min 99.5 per cent, $ per lb, in warehouse, 4.70-5.40 (same).

TUNGSTEN ORE: European free market, standard min. 65 per cent, $ per tonne unit (10 kg) WO_3, cif, 27-39 (same).

VANADIUM: European free market, min. 98 per cent, $ a lb V_2O_5, cif, 1.30-1.40 (1.35-1.40).

URANIUM: Nuexco exchange value, $ per lb, U_3O_8, 7.10 (same).

LME WAREHOUSE STOCKS (As at Monday's close) tonnes

Aluminium	+4,985	to 1,887,925
Copper	-7,150	to 448,225
Lead	+2,850	to 251,675
Nickel	+126	to 55,646
Zinc	-150	to 557,875
Tin	+65	to 20,575

WORLD COMMODITIES PRICES

MARKET REPORT

PALLADIUM continued its recent strong performance on the London bullion market. Dealers said that tightening Russian supplies were the cause of the recent rally. They also noted good demand from Japan and North America. In Chicago SOYABEANS were higher in fast early trading as a renewed round of fund buying pushed prices to contract highs. Fundamentals were little changed, traders said. Excessively wet weather in the Western US Midwest soyabean growing regions continues to plague the soyabean crop. New York raw SUGAR was lower in all months at midsession with nearby months feeling the most pressure on expectations for ample to abundant nearby supply. Analysts said forecasts for tightening global supply later this year and into 1994 was underpinning the back months. But uncertainty over how much would be delivered against spot July, which comes off the board today, and continuing sluggish demand in the cash market continued to undercut the front months. London COCOA futures closed with modest losses as the market struggled to consolidate after experiencing a downside technical correction.

Compiled from Reuters

London Markets

SPOT MARKETS

Crude oil (per barrel FOB)(Aug)		+ or -
Dubai	$15.45-5.54z	+0.17
Brent Blend (dated)	$17.44-7.48	+0.25
Brent Blend (Aug)	$17.70-7.74	+0.17
W.T.I (1 pm est)	$19.06-9.11z	+.185
Oil products (NWE prompt delivery per tonne CIF)		+ or -
Premium Gasoline	$199-201	
Gas Oil	$165-166	+1
Heavy Fuel Oil	$60-61	
Naphtha	$170-172	-1.5
Petroleum Argus Estimates		
Other		+ or -
Gold (per troy oz)♣	$378.75	+1.50
Silver (per troy oz)♣	447.5c	+3.0
Platinum (per troy oz)	$384.10	-2.90
Palladium (per troy oz)	$135.75	+3.60
Copper (US Producer)	89.00c	
Lead (US Producer)	33.50c	
Tin (Kuala Lumpur market)	12.80r	+0.04
Tin (New York)	235.5c	+4.0
Zinc (US Prime Western)	62.0c	
Cattle (live weight)†	139.79p	-0.03*
Sheep (live weight)†♠	112.10p	-1.68*
Pigs (live weight)†	85.98p	-1.01*
London daily sugar (raw)	$268.90	+0.70
London daily sugar (white)	$277.50	+1.00
Tate and Lyle export price	£290.00	-1.00
Barley (English feed)	Unq	
Maize (US No. 3 yellow)	£168.5t	
Wheat (US Dark Northern)	£147.0u	
Rubber (Aug)♥	59.00p	+0.50
Rubber (Sep)♥	59.50p	+0.75
Rubber (KL RSS No 1 Jul)	208.5m	+0.5
Coconut oil (Philippines)§	$445.0v	
Palm Oil (Malaysian)§	$347.5y	
Copra (Philippines)§	$295.0	
Soyabeans (US)	£189.5x	-1.0
Cotton "A" index	57.25c	+0.05
Wooltops (64s Super)	382p	

£ a tonne unless otherwise stated. p-pence/kg. c-cents/lb. r-ringgit/kg. y-Jul/Sep. z-Aug. v-Sep/Oct u-Jul t-Jun x-Aug/Oct ♥London physical. §CIF Rotterdam. ♣ Bullion market close. m-Malaysian cents/kg. ♠Sheep prices are now live weight prices * change from a week ago, provisional prices.

SUGAR – London FOX ($ per tonne)

White	Close	Previous	High/Low	
Aug	273.80	278.20	278.80	270.00
Oct	264.80	269.80	270.00	265.00
Dec	269.00	269.80	269.50	269.00
Mar	264.50	270.50	270.00	264.00
May	274.00	273.70	274.00	
Aug	278.00	277.00	278.00	
Oct	272.00	269.50	272.00	

White 2295 (710) Paris- White (FFr per tonne): Aug 1547.14 Oct 1504.54

CRUDE OIL – IPE $/barrel

	Latest	Previous	High/Low	
Aug	17.72	17.52	17.76	17.53
Sep	17.91	17.75	17.95	17.76
Oct	18.03	18.00	18.03	17.97
Nov	18.16	18.17	18.19	18.13
Dec	18.40	18.30	18.40	18.27
Jan	18.43	18.38	18.43	18.38
IPE Index	17.57	17.53		

Turnover 13981 (16764)

GAS OIL – IPE $/tonne

	Close	Previous	High/Low	
Jul	163.75	163.25	164.25	163.00
Aug	165.75	165.25	165.75	165.00
Sep	167.25	166.75	167.75	167.25
Oct	170.25	170.00	170.50	170.00
Nov	172.25	172.25	173.25	172.25
Dec	174.50	174.50	174.75	174.25
Jan	175.75	176.00	175.75	175.25

Turnover 7670 (6553) lots of 100 tonnes

COTTON

Liverpool- Spot and shipment sales amounted to 84 tonnes for the week ended June 25 against 38 tonnes in the previous week. Subdued offtake did not bring many operations. Support was forthcoming in certain specialist styles, notably in the Middle Eastern range.

COCOA – London FOX £/tonne

	Close	Previous	High/Low	
Jul	709	712	714	705
Sep	708	714	716	707
Dec	711	717	718	709
Mar	723	729	730	723
May	734	740	742	734
Jul	745	752	754	751
Sep	[illegible]	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]	[illegible]
Mar	[illegible]	[illegible]	[illegible]	[illegible]
May	[illegible]	[illegible]	[illegible]	[illegible]

LONDON METAL EXCHANGE (Prices supplied by Amalgamated Metal Trading)

	Close	Previous	High/Low	AM Official	Kerb close	Open interest
Aluminium, 99.7% purity ($ per tonne)						Total daily turnover 55,736 lots
Cash	1204.5-5.5	1216.5-7.5		1209-10		
3 months	1226-6.5	1240.5-1	1257/1229	1232.5-3	1231-2	216,612 lots
Copper, Grade A (£ per tonne)						Total daily turnover 48,875 lots
Cash	1242-4	1251-2	1266	1251-2		
3 months	1256-7	1269.5-9.5	1289/1260	1264.5-5	1267-7.5	222,027 lots

HEATING OIL 42,000 US galls, cents/US galls

	Latest	Previous	High/Low	
Jul	52.75	52.36	52.80	52.35
Aug	53.15	52.75	53.25	52.79
Sep	54.10	53.77	54.20	53.75
Oct	55.20	54.84	55.20	54.85
Nov	56.30	55.91	56.25	55.95
Dec	57.20	56.81	57.30	56.95

New York

Chicago

SOYABEANS 5,000 bu min; cents/60lb bushel

	Close	Previous	High/Low	
Jul	633/2	621/0	635/4	623/0
Aug	635/4	621/6	637/0	624/0
Sep	634/6	623/2	638/0	625/4

LONDON STOCK EXCHANGE

Blue chips weaker as support fades

By Terry Byland, UK Stock Market Editor

THE LONDON stock market lost its US buyer of stock index futures yesterday and interest rate optimism alone proved not enough to sustain share prices. The struggle to hold the Footsie 2,900 level, regained in early trading, was again lost towards the close when Wall Street came in lower following disappointing data on the US economy.

Selling pressure was light, however, and some enthusiasm was stimulated by corporate activity, especially among the domestic television industry stocks. Analysts at the leading securities firms continued to recommend a range of switching moves towards stocks regarded as underperformers. The FT-SE Mid 250 Index gained 5.2 to close at another all-time high of 3,229.1.

UK equities opened higher as Wall Street's 39 point gain overnight took some of the pressure off the drug sector and also raised hopes that US buyers of the London stock index future contract would continue to push the UK market forward. Indications, as soon as stock index futures opened, that the US buyer was not active, were ignored at first and the stock market advanced by 8 points to 2,905.

But the market went abruptly into reverse when some futures traders believed that a US house had turned seller of the September future, and the slide in share prices accelerated in the face of a significant sell programme from a UK house.

The selling hit the Footsie 100 list hard and the market gave ground steadily to show, at the day's worst, a loss of nearly 14 points. A modest rally brought a final reading on the FT-SE Index of 2,886, a net loss of 11 points since the previous close.

The Footsie Index has returned to its previous testing area, having made no convincing progress over the past week. Mr Robin Aspinall at Panmure Gordon commented that the Footsie Index looked "precarious" on the index charts.

The absence yesterday of the basket trading between index futures and blue chip stocks which has provided sustenance for equities for several session left the Footsie-listed issues looking vulnerable.

Interest rate optimism also went into a decline, in spite of the renewed climb in sterling yesterday afternoon. Although some strategists continued to insist that the Bundesbank is likely to make a move at its policy meeting on Thursday, analysts of the UK scene were less certain that rates will be cut in the UK before Mr Kenneth Clarke, the UK chancellor, introduces his autumn budget. The stock market also fears that any benefits arising from a cut in base rates could be offset by rises in domestic taxation.

However, the fixed income team at Nikko believe that; "lower (UK) interest rates later in the year are inevitable, given the poor outlook for growth."

In addition to its many other reasons for caution, the equity market is now restrained by the prospects for today's auction of £3.25bn of long-dated government bonds. Institutional activity has been at a low ebb this week as fund managers have raised cash for the gilt-edged auction. Rights issues have also reappeared this week, and yesterday's £190m rights call from United Newspapers revived market rumours that further cash calls are in the pipeline.

TRADING VOLUME IN MAJOR STOCKS

	Volume 000's	Closing Price	Day's change
[illegible]	[illegible]	[illegible]	[illegible]

Based on the trading volume for a selection of Alpha securities dealt through the SEAQ system yesterday until 4.30pm. Trades of one million or more are rounded down. † Indicates an FT-SE 100 Index constituent.

Account Dealing Dates

*First Dealings:		
Jun 21	Jul 5	Jul 19
Option Declarations:		
Jul 1	Jul 15	Jul 29
Last Dealings:		
Jul 2	Jul 16	Jul 30
Account Day:		
Jul 12	Jul 26	Aug 9

*New time dealings may take place from 8.30am two business days earlier.

TV sector put on the alert

THE PREMIUM price paid by Granada Group for its near-15 per cent voting stake in rival LWT sparked a surge in television company shares as the market braced itself for a wave of further strategic moves within the sector. Granada's surprise move, described as "audacious" by one media specialist, leaves the leisure and television group well placed to take advantage of the expected relaxing of regulations currently limiting mergers and acquisitions in the sector.

The main loser from yesterday's events was seen to be Carlton Communications which was thought to have high hopes of itself buying a strategic stake in its London rival. Analysts said that it was highly likely that Carlton would be in the market over the next few days in an attempt to gain a toe-hold in LWT. With Granada likely to stay on the acquisitive track, Central is also seen as another company that could be prompted into moving soon, with Anglia the likely target. In addition, Granada now has a way into Yorkshire-Tyne Tees, where it recently lost out to LWT for a WH Smith's 15 per cent stake.

Dealers said that BZW bought the 13.7m LWT convertible preference shares at 500p from three big institutional shareholders for £67.9m. They closed at 466p, a big jump of 91p. Carlton, which also lost its managing-director to Storehouse yesterday, tumbled 13 to 770p. Central gained 107 to 2,065p, Anglia 36 to 353p and Yorkshire 14 to 199p. Granada's share price closed 3 down at 417p.

Utd News rights

Overseas acquisitions are likely to be top of the shopping list for United Newspapers following yesterday's £190m cash call, and analysts were generally in agreement that the company had made a sound move.

There was some feeling that the company – which refused to be drawn on the exact nature of the potential acquisitions – might have been more open about its intentions. Mr David Forster at Smith New Court was slightly bearish, saying that the market would have preferred "a flavour" of what the targets would be. But he believed the one-for-five rights issue at 480p would be "grudgingly" taken up.

The share price slipped back 11 to 574p in a volume of 1.3m – a modest decline which some analysts read as a confident market comment. The offer was also largely seen as well-priced at a discount of 18 per cent to the market price.

"Despite the dilution in earnings, it is a good move," said one analyst who was unconcerned at the vague nature of United's acquisition intentions. "They are only expected to look at small things - there would be some concern if it was thought they were looking at big things."

United also made a confident forecast on its profits for the first six months of this year.

Wellcome worry

Wellcome remained under the hammer in a generally unhappy health and household sector, with the market said to have been unsettled by a very low-priced "print" or trade in the ADR's, recorded on the Seaq ticker during the session, indicating that the shares had come under heavy selling pressure in the US.

Wellcome shares have attracted sustained selling pressure over the past few weeks as the market has worried about the challenge being mounted to Wellcome's patent in the US on its AZT anti-Aids drug. The court case, being held in North Carolina, commenced on Monday.

At their worst yesterday Wellcome traded as low as 660p, before stabilising and moving up to end a busy day at 673p, for a net loss of 15, the lowest closing level since July 1991. Turnover was never more than thin and eventually reached 1.1m shares.

Wall Street's early weakness triggered selling of all the leading pharmaceuticals stocks in London. Glaxo, hit recently by numerous broker downgrades, lost 7 more to 563p on 2.7m traded. SmithKline Beecham moved against the overall trend, however, settling a net 2 higher at 437p on 1.2m, following support from one of the leading UK broking houses.

ICI, under constant pressure recently following some hefty profits downgrades by top broking firms, rallied to close 5¼ up at 658p on 2m traded. Ever-present takeover speculation drove Fisons up 2 more to 179p, after 180p.

French theme park operator Euro Disney fell 12 to 798p after French press reports that attendances have fallen dramatically in the last quarter.

Favourable comment on Monday's results and acquisition helped Airtours gain 4 to 338p. Rival tour operator Owners Abroad climbed 4 to 102p and Eurocamp also added 4 to 231p.

Profit-taking restricted Thorn EMI, off 5 at 910p, and Rank Organisation, 16 down at 780p.

The Irish banks responded to currency moves with Allied Irish up 6 at 263p and Bank of Ireland the same amount firmer at 253p.

Caledonia Investment jumped 25 to 484p after announcing a 38 per cent increase in preliminary profits.

Prudential Group held up well in an otherwise weak life assurance sector, the shares steadying around the 340½p-mark after a strong buy recommendation issued by Hoare Govett. The broker's insurance team said Prudential shares offered "significant upside" and that Prudential's dividend growth will at least equal that of the UK market and more likely outperform.

Royal Insurance continued to outpace the rest of the composites, moving up 6 more to 310p on good turnover of 3.9m. Insurance brokers attracted renewed strong support with Lowndes Lambert 5 up at 384p after excellent results, showing profits up 11 per cent at £10.3m. JIB put on 7 to 217p.

Seeboard hit the front in the regional electricity sector's "dividend race", upping the dividend by 16 per cent, and easily outpacing the early runners in the sector's "payout stakes". "The race is still on," said one utilities analyst. Electricity shares have risen sharply this week, responding to strong buy recommendations issued by leading brokers such as Kleinwort Benson and Smith New Court.

Seeboard ended a busy session a net 10 higher at 520p, followed by the likes of Midland, up 9½ at 481½p ahead of figures due on July 6, and Southern, up 8½ at 471½p ahead of preliminaries due on July 1.

Among the recs that have already declared their results, Yorkshire put on 10 to 512p, and Norweb 6 to 495p.

The latest spurt by the "recs" triggered a fresh burst of support for Northern Ireland Electricity which advanced 5 to 130p on good turnover of 4.9m; Prudential Corporation announced it has acquired 5.19m shares, or a 3.15 per cent stake, in the company since its flotation last week.

Securicor and its associate Security Services made rapid progress after revealing profits up 27 per cent and 36 per cent respectively. Securicor "A" jumped 11 to 645p and Security Services 14 to 549p.

Ferranti dropped 3 to 11¾p after the continuing losses with the shares additionally weakened by the sale of a block of 2m shares as part of a mid-morning programme trade.

Banana dealer Geest climbed on news that Germany had lost its case in the European Court of Justice against the introduction of the new EC import system for bananas.

A slightly downbeat trading statement from Sears left the stores group a half-penny adrift at 99p.

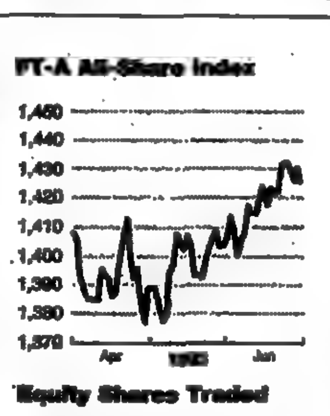
The appointment of a new chief executive at Storehouse ended a 4-month period of uncertainty and the shares advanced 3 to 212p.

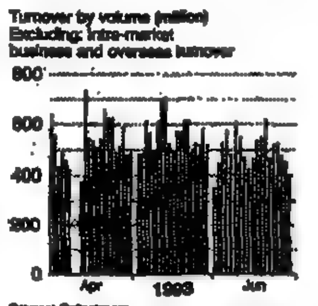
A confident forecast and reasonable results by John Waddington pleased the market, sending the shares up 11 to 230p in moderate turnover.

Shares of newly-named publisher Headline Hodder closed marginally better at 355p in its new ex-rights form as it made its debut in the market.

MARKET REPORTERS:
Steve Thompson,
Christopher Price,
Christine Buckley.

■ Other statistics, Page 21





NEW HIGHS AND LOWS FOR 1993

NEW HIGHS (165).
BRITISH FUNDS (8) Treas. 2pc IL '94, Cons. 2½pc, Cnv. 3½pc '61, OTHER FIXED INTEREST (6) Irish Cap. 8½pc '10, Do 9pc '96, Do 13pc [illegible] ... '84-95, Elkem, Headway, McKechnie, Vinten, PACKG, PAPER & PRNTG (3) Smith (DS), Wace, Waddington, PROP (7) Brit. Land 8¾pc 1, Debenham Tewson, Fletcher King, Land Sec. 10pc Db. '25, Do 10pc Db. '27, Do 10pc Db. '30, Wates City of Lon., STORES (2) Essex Furn., Goldsmiths, TEXTS (3) Coldwell, Coats Viyella, Parkland, TRANSPORT (3) Brit. Airways 9¾pc Cv. Bd., IoM Steam, Wah Kwong, MINES (8) Anglo Pacific, Bestrix, Centenary, ERGO, Nevan, Do 5pc Cv., PosGold, Resolute Res., Southwest.
NEW LOWS (24).
BRITISH FUNDS (1) Treas. 14½pc '94, AMERICANS (2) Gen. Host, Maty Tech., BUSINESS SERVS (3) Ferris, RCO, CHEMS [illegible], Hanson, (1) Pryls, CONTG & CONSTRCN (1) Raine, ELECTRONICS (1) Division, ENG GEN (2) Barry Wehmiller, Torday & Carlisle, FOOD MANUF (1) Usborne, FOOD RETAILING (1) Morrison (Wm), MEDIA (2) Birkdale, Sunset & Vine, MTL & MTL FORMING (1) Johnson Matthey, MISC (1) Pleasurama, OTHER INDLS (1) Tomkins 6¼pc Pf., PACKG, PAPER & PRNTG (2) Clondalkin, Smurfit, TEXTS (1) Campari, MINES (2) Devex, Pearminco.

FINANCIAL TIMES EQUITY INDICES

	June 29	June 28	June 25	June 24	June 23	Year ago	*High	*Low
Ordinary share	2263.0	2258.3	2264.5	2269.3	2275.8	1942.3	2280.5	2124.7
Ord. div. yield	4.10	4.09	4.09	4.08	[illegible]	[illegible]	[illegible]	4.07
Earning yld % full	4.85	4.84	4.85	4.84	[illegible]	[illegible]	[illegible]	4.82
P/E ratio net	26.40	26.46	26.41	26.47	26.57	[illegible]	26.57	19.49
P/E ratio nil	24.43	24.49	24.45	24.50	24.60	16.82	24.80	18.14
Gold Mines	201.9	205.7	195.5	193.3	189.6	92.1	205.7	68.0

*For 1993. Ordinary share index since compilation: high 2280.5 10/6/93 - low 49.4 26/6/40
Gold Mines Index since compilation high: 734.7 15/2/83 - low 43.5 26/10/71
Basis Ordinary share 1/7/35; Gold Mines 12/9/55.

Ordinary Share hourly changes

Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.00	High	Low
2275.5	2273.9	2265.9	2264.7	2263.0	2263.7	2263.4	2262.0	2262.0	2277.0	2258.2

Volume	June 29	June 28	June 25	June 24	June 23	Year ago
SEAQ Bargains	28,987	26,432	27,190	25,354	[illegible]	28,844
Equity Turnover(£m)†	-	931.5	1159.5	[illegible]	1333.9	839.9
Equity Bargains†	-	32,185	[illegible]	30,367	33,184	22,044
Shares traded (mn)†	-	405.7	453.5	478.6	504.6	378.5

† Excluding intra-market business and overseas turnover.

London report and latest Share Index
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FT-SE Actuaries Share Indices — THE UK SERIES

FT-SE 100	FT-SE MID 250	FT-A ALL-SHARE
2886.0 -11.0	3229.1 +5.2	1426.77 -3.40

	Jun 29	Day's change %	Jun 28	Jun 25	Jun 24	Year ago	Earnings yield %	Dividend yield %	P/E Ratio	Xd adj ytd
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Hourly movements

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FT-SE 100	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FT-SE Mid 250	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FT-SE-A 350	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

FT-SE Actuaries 350 Industry Baskets

	[illegible]
Construction	[illegible]
Health & H	[illegible]
Water	[illegible]
Banks	[illegible]

[illegible]

LONDON SHARE SERVICE

BRITISH FUNDS

	[illegible]
[illegible]	[illegible]

OTHER FIXED INTEREST

	[illegible]
[illegible]	[illegible]

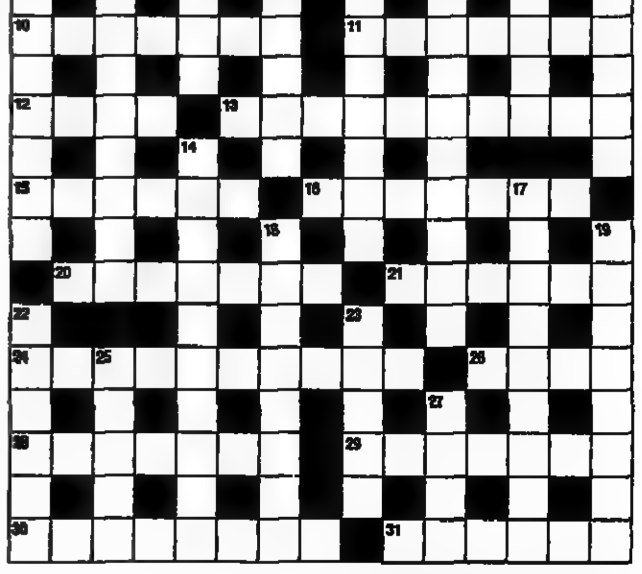
Continued on next page

CROSSWORD

No.8,189 Set by ALAUN

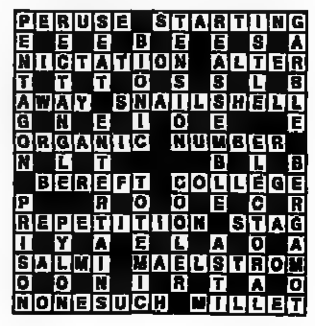
ACROSS
1 Wrap up and keep quiet! (6)
4 Want the pair dressed in warrior guise (3,5)
10 Stepped back when the chap entered, remaining hidden (7)
11 A cold meal: it is ordered due to weather conditions (7)
12 Plays with the little dogs (4)
13 Bid for something at the jewel auction (3,7)
15 Leaves to soak in boiling water (3,3)
16 How the contortionist relaxes? (7)
20 Put out and hurt (7)
21 Paper showing he abandoned the children (6)
24 Cell mates? (3,7)
26 Confine to housework (4)
28 He makes good at last (7)
29 Charge to look after (7)
30 The woman rises to pour out the drinks (8)
31 It won't stop you reading it! (6)

DOWN
1 Think a meat diet is wrong (8)
2 So far as I'm concerned, both make and break a party (3,2,4)
3 Be first to get the big news story (4)
5 Stress I had gone in by mere chance (8)
6 Called on and gave money to Avis, who took it (4,1,5)
7 State I had stood the round after (5)
8 In the end, shot out (6)
9 Age and weight (5)
14 Did he get the lash for stealing? (3,7)
17 Figure this one's reformable, though crooked (9)
18 Work before play (8)
19 Come on stage again juggling two pears (8)
22 By spring dry up, revealing cracks (6)
23 These days, likely to conform (5)
25 Having a title and money (5)
27 A great partiality for duck (4)



JOTTER PAD

Solution to Puzzle No.8,188



EQUITY FUTURES AND OPTIONS TRADING

FURTHER profit taking in stock index futures brought a decline which saw the September contract on the FT-SE test the 2,900 resistance level, writes Joel Kibazo.

The September contract opened at 2,920 taking its cue from the strong overnight performance on Wall Street. But this positive start made little lasting impression and having risen to the 2,926 within the first hour, it went into retreat.

Most of the selling was led by independent traders and had the effect of pulling the underlying cash market lower as it gathered pace. Sentiment was also dampened by a poor gilts sector, a rights issue from United Newspapers, and a sell programme from Smith New Court.

Having traded between 2,910 and 2,905 for most of the session, a big seller saw September fall to the day's low of 2,901 in the last hour of trading. However, bargain hunting just ahead of the close brought a modest rally and the contract finished at 2,904, down 15 on its previous close but 6 points ahead of its fair value premium to cash of 11 points.

Volume improved to 7,368 lots.

The traded options was more lively and recorded improved turnover of 27,066, against 21,964 contracts the previous day. The FT-SE 100 option saw business of 8,815 contracts, while 3,875 lots was recorded in the Euro FT-SE 100 option. Grand Metropolitan was the most active stock option with a day's total of 1,777 lots.

AMERICANS

	Notes	Price £	+ or –	1993 high	1993 low	Mkt Cap£m	Yld Gr's
Abbott Labs		17¾xd	–½	28⅞	15⅝	14,583	2.5
Allegheny & W.	♥	619p	–17	635p	399p	321.1	3.1
Amdahl		375p	+20	591p	302½p	421.1	0.8
Amer Cyanamid		35⅝	+⅞	39⅝	31¼	3,211	2.9
Amer Express		20⅞xd	–⅜	21⅝	14⅞	10,045	3.0
Amer T & T		41⅞xd	–⅞	42⅞	33⅛	55,772	2.0
AmerTech		53⅜	+⅜	54½	48	23,533	4.4
BankAmerica		30¼xd	+⅞	35¼	27⅛	10,545	2.9
Bankers NY		48⅞xd	+⅞	51⅞	42⅝	3,922	4.0
Bell Atlantic		38⅞	+½	39⅝	32¼	16,987	4.3
BellSouth		36⅝	–⅛	39⅞	32⅞	18,216	4.6
Bethlehem Steel	♥	12⅞xd	–⅞	13¾	10	1,125	–
Bowater		1329pxd	+28	1682p	1293p	481.2	1.9
CPC		27⅝xd	—	30⅝	28	4,203	2.9
California Engy		1432p	—	1479p	1086p	260.7	–
Chase Manhattan		21⅞xd	+⅝	24½	17⅞	3,395	3.5
Chrysler		31⅞xd	+⅝	31⅞	21⅞	9,206	1.2
Citicorp		20⅞xd	+⅞	20⅞	13⅞	7,383	–
Colgate-Palm		38⅞xd	–⅝	45⅝	35⅛	6,107	2.0
Cont'l Bank		1637p	+44	1677p	1278p	1,854	2.3
Dana		35⅞xd	–⅞	35⅞	29⅞	1,841	2.8
Data General		651p	+64	851p	687p	179.9	–
Decora Inds	♥	138p	—	146p	108p	–	–
Dun & Brad		39⅝	+⅝	42⅝	37⅛	7,018	3.9
Eaton		69⅝	+⅝	62⅝	50⅝	2,093	2.3
Echlin		18⅞xd	+⅞	18⅞	15⅞	1,058	2.4
FPL		25⅞xd	–⅜	27⅝	23¼	4,621	6.1
Ford Motor		34½xd	+⅞	36½	26⅞	16,849	1.8
Gen Elect		63⅞xd	–⅞	66⅛	53⅞	54,391	2.5
General Host	♥	543p	–25	723p	543p	–	4.1
Gillette		36⅞xd	+⅞	42⅝	31⅞	7,938	1.5
Hasbro		20⅝	—	20⅞	20⅞	1,819	0.7
Honeywell		24⅞xd	–⅞	24⅞	20⅞	3,323	2.3
Houston Inds		29	–⅞	33⅛	28⅞	3,755	6.6
Ingersoll-Rand		23⅞xd	+⅞	25	19⅞	2,415	1.9
Lockheed		44⅞	+⅞	46⅞	35⅛	2,707	3.0
Lowe's		2536p	+57	2538p	1579p	1,851	0.7

CANADIANS

BANKS

BREWERS & DISTILLERS

BUILDING MATERIALS

BUILDING MATERIALS - Cont.

BUSINESS SERVICES

CHEMICALS

CONGLOMERATES

CONTRACTING & CONSTRUCTION

CONTRACTING & CONSTRUCTION - Cont.

ELECTRICALS

ELECTRICITY

ELECTRONICS

ENGINEERING-AEROSPACE

ENGINEERING-GENERAL

ENGINEERING-GENERAL - Cont.

FOOD MANUFACTURING

FOOD RETAILING

HEALTH & HOUSEHOLD

HOTELS & LEISURE

HOTELS & LEISURE - Cont.

INSURANCE BROKERS

INSURANCE COMPOSITE

INSURANCE LIFE

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Cont.

MONDAY INTERVIEW

Caring, cuddly Tory

Chris Patten, chairman of the Conservative party, talks to **Philip Stephens**

Mr Chris Patten is the cuddliest face in the new caring Conservative party.

After 11½ years of less-than-cuddly government under Mrs Margaret Thatcher, his job as party chairman in the run-up to the general election is straightforward.

Mr Patten has to persuade the voters that Mr John Major will preserve the best of Mrs Thatcher's legacy while the government is jettisoning the harsher policies which led her own supporters to ditch her.

It has not been hard for him to master the new vocabulary. Mr Patten is no longer the traditional "Tory wet" whose vocal opposition to the simplistic monetarism of the early 1980s cost him years in the political wilderness. Several years ago he embraced the market economics at the heart of Thatcherism.

But Mr Major's promise of an "opportunity society" coincides neatly with Mr Patten's instinctive allegiance to a Toryism rooted in the traditions of Rab Butler and Ian Macleod rather than in the theology of Friedrich von Hayek.

"We're going to be setting out an agenda for the next decade that will draw on the 1980s but be different, and be different partly because of the personality and the leadership of the new prime minister," Mr Patten said near the start of our hour-long interview.

The awkward link between past and future is a recurring theme. Conservative ministers want to offer a distinctive future without disavowing the past which they had prominent roles in shaping. They want to herald a new era of collegiate cabinet government without admitting that they submitted meekly to the authoritarian style of Mrs Thatcher.

Mr Patten, a master of the elegant phrase and the neat sidestep, provides some clues to the new approach. He talks of preserving the core of her achievements, but then slips into distinctly unThatcherite phrases such as "welfare capitalism", "sound money and social responsibility", "the social market economy".

It is time, he says, to look at the jungle of tax and benefit traps at the bottom end of the income scale which deprive the poor of the opportunity to exploit their talents. State education must be good enough to ensure that nobody feels obliged to send their children to fee-paying schools. The inner cities must be revitalised.

His appointment as chairman was an important symbol of Mr Major's determination to break with the past. The prime minister sacked only a handful of Mrs Thatcher's ministerial acolytes, but that phrase "one of us" has already taken on an entirely new meaning.

It no longer signals unquestioning adherence to the certainties and convictions of Thatcherism. Instead it marks membership of an inner circle of 45- to 50-year olds in tune with Mr Major's brand of Conservativism. At 46, Mr Patten is a prominent member.

He promises an election manifesto that will be "replete with ideas". It will be positive, serious, forward looking – and (here there is an important qualification), where appropriate, radical.

He talks of "popular" rather than "populist" programmes, of mobilising consent for change rather than driving it through regardless, of establishing a direction but then being more relaxed about how fast you get there.

Mr Kenneth Baker's brash sloganising, in which Mr Neil Kinnock's Labour party was equated frequently and luridly with the more tyrannical of the fallen communist regimes in eastern Europe, has disappeared. Mr Patten is condescending about Mr Kinnock and adamant that the Labour party has failed to shape a coherent programme for government. But he does not see the opposition as a threat to civilisation as we have come to understand it. Nor does he see much mileage in harking back to the 1970s.

"When we first formed a government, my eldest daughter was in the infants' class at primary school and she'll be voting come the next election, going up to university; now Kate, bright girl though she is, doesn't actually respond when one starts talking about Denis Healey and the IMF . . . it's about as fresh and relevant as talking about the battle of Bosworth Field."

The implication is clear: "That argues to me very strongly that we have to win an election by talking about the 1990s."

But that takes us back to the start of the interview. Surely Mr Kinnock has a point when he says that the style, the rhetoric may have changed, but the policies are the same.

The problems have not changed, Mr Patten admits. The government still faces a difficult period of economic adjustment (code for recession); it still has to get on top of inflation; it has to make sure that industry becomes more competitive.

Nor, for all the talk about better public services, is it planning a spending spree. "It isn't going to be a government which thinks – to summon a cliché from the closet – that you can solve problems by simply throwing money at them." He turns to personalities. The present cabinet is a product of Mr Butler's 1944 Education Act. "You look round a lot of my colleagues and see grammar school, direct grant school scholarships writ large . . . Certainly, speaking for myself, I would reckon that Butler and the '44 act made me, rather than Balliol. Now, I think that the prime minister himself brings to that question of extending opportunity not only . . . a certain romance and dash. It is a magnificently improbable story – from Brixton to Chequers.

"But he also brings a strong sense of personal commitment. And I believe, myself, that it's going to be a very important part of our message."

Opportunity does not mean equality – even equality of opportunity. Mr Patten sees nothing wrong with the notion that wealthy families can buy their children a better education than the state provides: "I don't believe that trying to make everybody more equal in income has today, has ever had, or will ever have, much to do with Conservatism."

Then: "What you can do is to try to ensure that people have equal access to opportunity and that they have as much common entitlements to getting on, to making the best of their abilities, as possible."

It still sounds a bit vague, though. Exactly what does it mean for the young people sleeping in the Strand?

Mr Patten takes refuge in a reluctance not to pre-empt the policy agenda that Mr Major will be setting out in coming months. "It's for the prime minister initially to put up the signposts." It is a weak answer.

Nor is he is prepared to anticipate the latest review of the poll tax, save to say: "I think that we're unlikely to go into the next election committed to retaining precisely the system of local government finance we've got now."

He talks instead about the failure of governments for more than 20 years to get the balance right between local and central administration: "The collapse of local government in some of our municipalities is a democratic scandal."

Many would agree, but from the man who tried – and failed – as environment secretary to make the poll tax work, it sounded too much like an eloquent dodge. How relevant will his daughter Kate find the failure of local government reform in the 1960s when she receives her first poll tax bill?

So we turn briefly to Mr Patten. In different circumstances he would have challenged Mr Major for the party leadership. As it was, he supported Mr Douglas Hurd. In the process he also denied himself the job that he would like most after that of prime minister – chancellor of the exchequer.

Friends say that he is deeply disappointed that Mr Major's victory at the age of 47 appears to have closed the door permanently to 10 Downing Street.

He insists though that he is in "an exceptionally interesting" position as party chairman. "I think that I'm going to enjoy my politics, whatever the problems, a great deal over the next year or so."

A comment dropped in during a discussion of his Christianity perhaps explains why.

A devout Catholic, he talked about his belief in original sin. It is a concept much favoured by the Thatcherite wing of the Tory Party to justify the need for individual incentives in the marketplace. But Mr Patten said he was also a believer in "original virtue" – the generosity of spirit which brings out the best in people.

That perhaps was it. Mr Major's government would be different because it would recall the virtue as well as the sin.

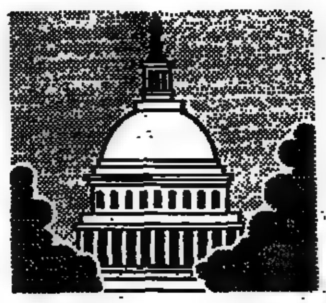
Trevor Humphries

'I think that I'm going to enjoy my politics'

PERSONAL FILE

- **1944** Born Lancashire, educated St Benedict's School, Ealing, and Balliol College, Oxford.
- **1966-70 and 1974-1979** Member and director of Conservative Research department.
- **1979** Elected to parliament as MP for Bath.
- **1983-85** Junior minister, Northern Ireland Office.
- **1985-86** Minister of state, education department.
- **1986-89** Minister of state for overseas development.
- **1989-90** Secretary of state for the environment.
- **1990** Chairman of the Conservative party.

Bush must tackle domestic agenda



MICHAEL PROWSE on America

As the January 15 deadline for Mr Saddam Hussein to withdraw from Kuwait draws closer, President George Bush remains preoccupied by foreign policy issues. But many Republicans are now arguing that if more effort is not put into domestic policy, the Grand Old Party will have little hope of gaining ground in the 1992 elections. It may hang on to the White House but it will remain neutered by the Democratic majority in Congress.

In domestic terms, recent months have been vexing. Mr Bush's renunciation of his "no new taxes" campaign pledge deeply offended many right-wingers who complain that the guiding stars of the Reagan era – opposition to communism and opposition to taxes – have now both been extinguished. Republican drift, they say, has allowed the Democrats to regain the political initiative by traditional ploys – such as drawing attention to the growing inequality of incomes.

The chorus of complaint was briefly stilled by the news that Mr William Bennett, the pugnacious former leader of Mr Bush's crusade against drug abuse, was to become chairman of the Republican National Committee and lead preparations for the elections. But Mr Bennett, an intellectual who had been expected to browbeat leading Democrats, withdrew at the last minute, complaining that he had not taken a "vow of poverty" and wanted to earn lucrative fees from books and lectures.

The Bennett fiasco was swiftly followed by a row over college scholarships for racial minorities. The Education Department ruled that institutions receiving federal support could not make race the only criterion for the receipt of scholarships. This position appeared consistent with Mr Bush's vetoing of civil rights legislation proposed by Congress and was applauded by right-wingers seeking a "colour-blind" society. But the White House quickly backtracked, arguing that race-based scholarships were acceptable if privately funded.

The scholarship row underlined the dilemma Mr Bush faces on domestic policy. Right-wingers such as Mr Newt Gingrich, the minority whip in the House of Representatives, believe the Republicans can gain ground only by adopting the kind of radical free market policies championed by Ronald Reagan and Barry Goldwater. But other powerful figures, such as Mr Richard Darman, the president's budget director, and Mr John Sununu, the White House chief of staff, appear to support a less confrontational approach, accepting the need to co-operate with congressional Democrats on domestic issues.

Prominent among Republican radicals is Mr Jim Pinkerton, a young White House aide who helped destroy former Governor Michael Dukakis's presidential hopes by focusing attention on his furloughing of Mr Willie Horton, a convicted murderer. Mr Pinkerton is now promoting an allegedly new approach to social problems called The New Paradigm. The phrase is drawn from Thomas Kuhn's classic book The Structure of Scientific Revolutions. An example of a paradigm shift occurred when Copernicus and Galileo overturned Ptolemy's 1,000-year-old doctrine of an earth-centred universe.

Mr Pinkerton believes a paradigm shift is now overdue in the realm of social policy. "The crisis in our cities, the crisis of our roads, the crisis of our schools – these are all symptoms of a larger crisis, the terminal crisis of the Old Paradigm," he wrote in a recent paper. His thesis is that while the collapse of communism demonstrates the failure of socialist and bureaucratic approaches to human problems, much of the American public sector still operates on the basis of these defunct principles. He thus favours a focus on competition, choice, decentralisation and "empowerment" of the individual in all fields of social policy.

Right-wingers hope that Mr Bush will build a new domestic agenda around these stirring themes. But Mr Darman recently poured cold water on the Pinkerton paradigm, arguing that it was unoriginal and pretentious. He ridiculed the constant pressure for new policies and warned that in the real world people might just dismiss Mr Pinkerton's approach with the refrain "Hey, brother, can you paradigm?" Mr Sununu has been more circumspect, commenting only that capitalism and the promotion of free markets will remain the cornerstones of Mr Bush's domestic policy.

Concepts such as choice and empowerment, while theoretically attractive, are hardly new and offer dubious electoral benefits. Richard Nixon advanced a somewhat similar agenda when he accepted the Republican presidential nomination in 1968. More recently, Mrs Thatcher's social reforms were based on precisely these principles. And they did little, it has to be said, either to improve performance or to enhance her fading popularity.

In all probability, Mr Bush will embrace some of the new paradigm rhetoric, rather as he talked of a "thousand points of light" and a "gentler, kinder America". He may also announce a few pilot projects, especially in education where the "choice" school has quite a following. But it is hard to imagine this president promoting a violent change of direction in social policy. The new budget rules concocted by Mr Darman create a structure that encourages Democrats and Republicans to haggle over the details of welfare state programmes rather than question their fundamental rationale. This is a straitjacket that Mr Bush, who often appears to have the mentality of a secretary of state rather than a president, will be more than happy to wear.

JOTTER PAD

Time is ripe for reform

JUSTINIAN

Services rendered to the public by the legal profession have been a veritable political football ever since the government published its three green papers in January 1989 (followed by its white paper in July 1989) designed to assault the profession most passionately wedded to a range of restrictive practices and outmoded habits of working.

With the Courts and Legal Services Act 1990 receiving the royal assent on January 1 1990, the profession is now able to take stock of this inroad upon its role and function in the 1990s. The bar's relative contentment with what has finally emerged from parliament is a measure of its fighting weight and ability to wrestle with government and legislature.

The government and its ensuing bill reflected the Thatcherite doctrine of indiscriminate, radical reform of all corporatist action that militates against individual self-help. The legal profession could no longer remain immune from political influences such as it had largely managed to concoct for itself in the past.

The battle of least practical importance but of supreme significance to the two branches – in this respect, actively rival branches – of the profession was over rights of audience. The bar hung tenaciously to its insistence of advocacy-monopoly in the supreme court.

Solicitors, for their part, clamoured for an extension of the rights of audience in the lower courts, in which some (particularly outside London) regularly do appear. The original proposals in the bill to widen the scope of advocates have been whittled down. Any change in the future in rights of audience will be subject to the new machinery, which includes a lay-dominated advisory committee (with a judge as chairman), the Lord Chancellor and four senior judges. Each of the four senior judges retains an individual veto, an amendment to the bill unsuccessfully resisted by the solicitors. The chairman of the Lord Chancellor's Advisory Committee is a law lord, Lord Griffiths, who has been warmly welcomed by the bar.

The Law Society has inserted into the legislation the general principle that all advocates must accept the cab-rank rule: subject to availability and proper remuneration the advocate cannot pick and choose his clients, as solicitors may do in the course of their practices. The most undeserving and unsympathetic rogue is entitled to the best advocate available. The Law Society's attempts to obtain immediate extensions to solicitors' existing rights of audience – eg: to conduct pleas of guilty in the crown court and to appear in all interlocutory business in the high court – failed.

Overall, the bar is the clear winner. Rights of audience will be conceded to other than barristers in private practice only in small doses and in no great hurry. The most likely immediate change will be to accord the rights of audience to lawyers employed in the Crown Prosecution Service, a right being claimed by the Director of Public Prosecutions.

The most significant aspect of the legislation is to be found in the impetus it has provided to the profession to reform itself. Access to justice is a constant theme of statements from spokesmen for the profession. The profession has noted how, since 1979, nearly 15m people and 5½m households have become ineligible for civil legal aid. The focus of future encounters with governments will be on resources from public funds to sustain legal aid and advice to the citizen.

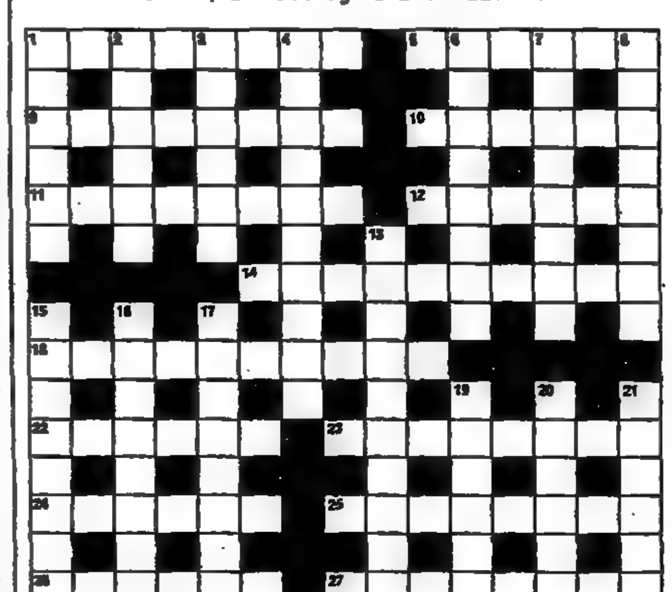
The future of neighbourhood law centres, increasingly starved of funds, will be crucial to public contentment with legal services. The profession is naturally exhibiting its wish to take up the cudgels of the citizen.

In its annual report for 1990, the chairman of the Bar Council (recently elevated to the high court bench – a traditional reward) echoed the general view of barristers that "there is a new sense of confidence, a new determination to develop strategies to ensure that the continued existence of the independent bar is never threatened again". The castigation for that threat to an independent bar, which the Lord Chancellor received at the hands of the judiciary in a special House of Lords debate in late 1989, is recalled but the mood now is one of bruised feelings and relief that the worst fears have not been fulfilled. On that occasion, the Lord Chief Justice, Lord Lane, was the most vociferous critic of the government in its perceived intrusion into the control of the courts by the judges and thence ineluctably impinging upon the independence of the judiciary. Apart from this encounter with government, Lord Lane's tenure of office has been torrid, inflated by recent public disquiet over a number of miscarriages of criminal justice.

Talk in the Temple is that after 10 arduous years, Lord Lane is ready to retire. His intellectually vigorous approach to problems of crime and punishment and his dedication to a system of justice free from executive interference or unnecessary influence has been outstanding. The profession's preferred successor would be Lord Justice Taylor, the author of the Hillsborough Stadium inquiry report. He is in the same mould as Lord Lane and shares an antipathy for the recent troubles with Whitehall. An outsider to succeed as Lord Chief Justice is Lord Justice Russell, whose background image reflects that of the prime minister. A Mancunian, a non-Oxbridge law graduate and a notable former cricketer, he is warmly regarded by the profession. He is forthright in decision-making, without pomp in style and highly congenial in addressing the audience in the courtroom. At a time when criminal justice is due for a shake-up in the wake of the investigation into the Guildford Four, the Birmingham Six and other *causes célèbres*, there could be nobody more amiable amenable to sound reform.

CROSSWORD

No.7,430 Set by DOGBERRY



ACROSS

1 A crest on pet's crypt (8)
5 It's taken by reformed topers (6)
9 Perennial flower for a barnstormer sent back without tirade (6)
10 Popular sleuth takes eggs back to bird (6)
11 Fellow feeling my wayward girl – timid about it (8)
12 Nodding at turning fish, possibly gutted (6)
14 Disorder clears up as old physician appears (10)
18 What you do in the pub, clumsily, ends with lack of cash (10)
22 Protective coat for applying enema to student (6)
23 Invalid with debt in Tottenham? (8)
24 Where solutions are put to girl (6)
25 Dedicate Christmas scene in the middle of tinsel (8)
26 Deer accepts epithet of seventh age (6)
27 "Commence the game, unwisely wed" (Noyes) (4,4)

DOWN

1 Posh earthbound ship (6)
2 Distressing experience of a Greek character's craft capsizing (6)
3 Tax on inverted bow-tie (6)
4 Union organiser? (10)
6, 17 Gorgeous girls, gory 9 (4-4,8)
7 Scare off in river's ebb (8)
8 Infiltrator points to one interrupting date (8)
13 Quick-witted to take in the PC improperly scrimping (10)
15 Encouraged to eat backbone at the ballet (8)
16 Hill enters, therefore: model French delicacy (8)
17 see 6
19 Flower turning gold and copper with gas around (6)
20 In bad mood about tile (6)
21 Like bird's behind? (6)

The solution to last Saturday's prize puzzle will be published with names of winners on Saturday January 12.

BASE LENDING RATES

	%		%		%
ABN Bank	14	Coutts & Co	14	NatWestminster	14
Adam & Company	14	Cyprus Popular Bk	14	Northern Bank Ltd	14
Allied Trust Bank	14	Dunbar Bank PLC	14	Nykredit Mortgage Bank	14½
AIB Bank	14	Duncan Lawrie	14	Provincial Bank PLC	15
● Henry Ansbacher	14	Equatorial Bank plc	14	Roxburghe Bank Ltd	14½
Associates Cap Corp	15½	Exeter Trust Ltd	14½	Royal Bk of Scotland	14
● B & C Merchant Bank	14	Financial & Gen. Bank	14	Royal Trust Bank	14
Bank of Baroda	14	First National Bank Plc	16	● Smith & Williamson Secs.	14
Banco Bilbao Vizcaya	14	● Robert Fleming & Co	14	Standard Chartered	14
Bank Credit & Comm	14	Robert Fraser & Ptnrs	14½	TSB	14
Bank of Cyprus	14	Girobank	14	Unibank plc	14
Bank of Ireland	14	● Guinness Mahon	14	● United Bk of Kuwait	14
Bank of India	14	● Hambros Bank	14	United Mizrahi Bank	14
Bank of Scotland	14	Hampshire Trust Plc	14½	Unity Trust Bank Plc	14
Banque Belge Ltd	14	Heritable & Gen Inv Bnk	14	Western Trust	14
Barclays Bank	14	● Hill Samuel	14	Westpac Bank Corp	14
Benchmark Bank	14	C. Hoare & Co	14	Whiteaway Laidlaw	14
Brit Bk of Mid East	14	Hongkong & Shangh	14	Yorkshire Bank	14
● Brown Shipley	14	● Leopold Joseph & Sons	14		
CL Bank Nederland	14	Lloyds Bank	14		
● Charterhouse Bank	14	Meghraj Bank Ltd	14		
Citibank NA	14	McDonnell Douglas Bnk	14		
City Merchants Bank	14	Midland Bank	14		
Clydesdale Bank	14	Mount Banking	14		
Comm. Bk. of London Plc	14	Nat Bk. of Kuwait	15		
Co-operative Bank	*14				

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INVESTMENT TRUSTS - Cont.

	Notes	Price	+ or -	1993 High	1993 low	Yld Gr's	NAV	Dis or Pm(-)
Scottish Inv	♣†□	203xd	—	204	183	2.8	236.5	14.2
Warrants	□	51½	+½	61½	38	–	–	–
Scot Mortgage	♣□	193½	-1½	201	176	2.8	225.2	13.9
Scot National Inc	♣k□	84	—	95½	82	11.2	–	–
Cap	□	25	—	28	18	–	67.5	63.0
Stepped Pf		153¼	—	155¼	150¾	4.8	–	–
Zero Div Pf		212½	—	212½	207	–	–	–
Warrants		2¼	—	5	2½	–	–	–
Scot Value	†a□	83½	—	83½	71	2.7	83.9	0.4
Sec Alliance	♣†	1591	-2	1605	1390	3.8	1606.4	0.6
Second Consid	□	161	+7	161	88	–	212.0	24.3
Second Market	♣a	347	—	347	258	0.7	348.8	0.7
Sec Tst Scot	♣□	83½	—	84½	74½	4.8	83.8	0.7
Select Assets	□	132	—	132	108½	1.1	174.4	24.3
Eq Ind Serl		135	-1	136	128	3.9	–	–
Eq Ind Sers		135	-1	136	128	3.9	–	–
SHIRESCOT	♣†	132	—	132	104	5.0	128.0	-3.1
Shires	♣M	260xd	—	262	231	8.1	254.4	-2.2
11pc Cv Ln '03/04		£127½	—	£131½	£115½	8.8	–	–
Stern Select		128	—	128	97	1.8	153.1	16.6
Warrants		27	—	36	15	–	–	–
Smaller Cos	□	125xd	—	125	78	2.6	–	–
Warrants		30	—	30	14	–	–	–
Sphere Inc	□	34	—	34	14	18.7	35.1	35.0
Zero Div Pf		88	+½	90¼	80¼	–	–	–
Sumit		62	—	62	38	2.8	94.2	34.7
TR City of Lon	□	138½	—	140¼	128	4.3	131.8	-5.1
TR Euro Growth	♣□	108	+1	109	78	1.8	117.0	8.2
Pfg Sub		57	—	58	27	3.0	–	–
TR Far East Inc	♣†□	144	-1	145	112	3.9	137.0	-4.7
Warrants		43	—	43	22	–	–	–
TR High Inc		121	—	121	102	6.2	116.1	-4.7
Sub		28xd	—	31	25	0.8	–	–
TR Pacific	♣□	152½	-½	153	110	0.3	137.2	-11.1
TR Prop	♣□	28½xd	—	28¾	17	4.2	32.1	17.5
TR Smaller	♣□	178	+1	180	140	2.6	185.7	4.1
TR Technology	♣□	68	—	69	47	3.3	210.2	68.8
Units		2203	+3	2203	2010	1.7	2604.4	15.5
Stepped Pf		128	—	128	111½	8.6	–	–

[illegible]

MERCHANT BANKS

	Notes	Price	+ or -	1993 High	1993 low
Barings 8pc Cm 2nd Prf		98½	—	100½	[illegible]
9¼pc Non-Cum Prf		118¼	+½	127½	[illegible]
Close Bros	G†	342	—	378	[illegible]
Hambros	♣q□	330xd	—	350	[illegible]
7½pc Cv Pf		144	-1	149½	111½
Joseph (L)	♣	358	—	380	[illegible]
Kleinwort Benson	□	408	—	428	[illegible]
Rea Bros	♣□	43	—	47	[illegible]
Schroders	♣k	953	-2	987½	467½
N/V	k	825	—	839	387½
Singer & Fried	♣□	65½	-½	78	[illegible]
Warburg (SG)	♣kL□	723xd	—	741	[illegible]
6pc Cv Pf		232	—	235	[illegible]
Wintrust		240	—	250	[illegible]

METALS & METAL FORMING

[illegible]

INVESTMENT COMPANIES

[illegible]

MEDIA

[illegible]

MOTORS

[illegible]

OIL & GAS

[illegible]

MISCELLANEOUS

[illegible]

OIL & GAS - Cont.

[illegible]

OTHER FINANCIAL

[illegible]

OTHER INDUSTRIALS

[illegible]

PACKAGING, PAPER & PRINTING

[illegible]

PACKAGING, PAPER & PRINTING - Cont.

[illegible]

PROPERTY

[illegible]

STORES

[illegible]

TELEPHONE NETWORKS

[illegible]

TEXTILES

[illegible]

TRANSPORT

[illegible]

WATER

[illegible]

SOUTH AFRICANS

[illegible]

PLANTATIONS

[illegible]

MINES

[illegible]

MINES - Cont.

[illegible]

GUIDE TO LONDON SHARE SERVICE

[illegible]

q Earnings based on preliminary figures.
s Dividend yield excludes a special payment.
t Indicated dividend yield, p/e ratio based on latest annual earnings.
u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings.

... official estimates for 1993.
K Yield based on prospectus or other official estimates for 1992-93.
L Estimated annualised yield, p/e based on latest annual earnings.
M Yield based on prospectus or other ...

... official estimates.
T Figures assumed.
W Pro forma figures.
Z Dividend yield to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xt ex capital distribution.

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AUTHORISED UNIT TRUSTS

Guide to pricing of Authorised Unit Trusts

Compiled with the assistance of Lautro §§

INITIAL CHARGE: Charge made on sale of units. Used to defray marketing and administrative costs, including commission paid to intermediaries. This charge is included in the price of units.

OFFER PRICE: Also called issue price. The price at which units are bought by investors.

BID PRICE: Also called redemption price. The price at which units are sold back by investors.

CANCELLATION PRICE: The minimum redemption price. The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, most unit trust managers quote a much narrower spread. As a result, the bid price is often set above the cancellation price. However, the bid price might be moved to the cancellation price by the managers at any time, usually in circumstances in which there is a large excess of sellers of units over buyers.

TIME: The time shown alongside the fund manager's name is the time of the unit trust's valuation point unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: (♥) - 0001 to 1100 hours; (♦) - 1101 to 1400 hours; (♣) - 1401 to 1700 hours; (♠) - 1701 to midnight. Daily dealing prices are set on the basis of the valuation point, a short period of time may elapse before prices become available.

HISTORIC PRICING: The letter H denotes that the managers will normally deal on the price set on the most recent valuation. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis. The managers must deal at a forward price on request, and may move to forward pricing at any time.

FORWARD PRICING: The letter F denotes that the managers deal at the price to be set on the next valuation. Investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper are the most recent provided by the managers.

SCHEME PARTICULARS AND REPORTS: The most recent report and scheme particulars can be obtained free of charge from fund managers.

Other explanatory notes are contained in the last column of the FT Managed Funds Service.

§§ Life Assurance and Unit Trust Regulatory Organisation.
Centre Point,
103 New Oxford Street, London WC1A 1QH
Tel: 071-379-0444.

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INSURANCES

OTHER UK UNIT TRUSTS

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Provident Life Assoc Ltd
Provident Way, Basingstoke RG21 2SZ 0256 470707

	Bid Price	Offer Price	+ or -	Yield Gross
Gold Gauge (Pensions)				
Discretionary Fund		159.9	+0.2	–

Provident Mutual Life Assc. Assn.
6 Hills Way Stevenage Herts SG1 2ST 0438 750000

	Bid Price	Offer Price	+ or -	Yield Gross
Managed Ord	420.3	442.4	-0.4	–
Managed Init	297.0	312.6	-0.2	–
Equity Ord	628.4	661.5	-1.2	–
Equity Init	444.0	467.4	-0.8	–
Index Linked Gilt Ord	195.5	205.8	+0.6	–
Index Linked Gilt Init	144.3	151.9	+0.5	–
Overseas Equity Ord	339.7	358.5	+0.1	–
Overseas Equity Init	239.3	251.9	+0.1	–
Property Ord	227.9	239.9	+0.1	–
Property Init	161.0	169.5	–	–
Fixed Interest Ord	264.4	278.3	-0.1	–
Fixed Interest Init	185.8	195.6	-0.1	–
Deposit Ord	196.9	207.3	–	–
Deposit Init	139.1	146.4	–	–
Pension Funds				
Managed Ord	555.4	584.6	-0.6	–
Managed Init	392.4	413.1	-0.4	–
Equity Ord	858.5	903.7	-2.2	–
Equity Init	606.5	638.4	-1.7	–
Pen Ind Lkd Gilt Ord	222.7	234.4	+0.7	–
Pen Ind Lkd Gilt Init	164.3	172.9	+0.6	–
Overseas Equity Ord	393.9	414.6	+0.2	–
Overseas Equity Init	278.3	292.9	+0.1	–
Property Ord	291.3	306.6	+0.1	–
Property Init	205.8	216.6	+0.1	–
Fixed Interest Ord	344.0	362.1	–	–
Fixed Interest Init	243.0	255.8	-0.1	–
Deposit Ord	288.3	303.5	–	–
Deposit Init	203.7	214.4	–	–

Prudential Assurance Co
Holborn Bars, London EC1N 2NH 071-405 9222

	Bid Price	Offer Price	+ or -	Yield Gross
Portfolio				
Managed Jun 23	365.0	377.5	–	–

Scottish Amicable
150 St Vincent St, Glasgow 041-248 2323

	Bid Price	Offer Price	+ or -	Yield Gross
Life Funds (First Series)				
Managed	408.2	429.7	-1.90	–
Equity	611.0	637.9	-1.70	–
Property	242.2	255.0	–	–
International	399.6	420.7	-4.90	–
Japanese	114.4	120.5	-3.00	–
Asia Pacific	140.5	147.9	-1.50	–
European	107.9	113.6	-0.50	–
American	144.4	152.1	-0.30	–
Fixed Interest	343.9	362.1	-0.40	–
Index-Linked Gilt	186.7	196.6	–	–
Cash	220.4	232.0	–	–
Life Funds (Second Series)				
Managed	113.8	119.8	-0.40	–
Equity	109.9	115.7	-0.40	–
Property	101.8	107.2	–	–
International	123.5	130.1	-1.40	–
Japanese	114.7	120.8	-3.00	–
Asia Pacific	137.6	140.1	-1.50	–
European	107.0	112.7	-0.40	–
American	141.2	148.7	-0.30	–
Fixed Interest	129.3	136.2	-0.30	–
Index-Linked Gilt	119.5	125.8	–	–
Cash	109.5	115.1	–	–
Pension Funds				
Building Society	173.7	182.9	–	–
Managed (Init)	236.4	248.9	-1.50	–
Managed (Acc)	469.3	494.1	-2.90	–
Equity (Init)	266.5	280.7	-1.20	–
Equity (Acc)	529.3	557.2	-2.30	–
Property (Init)	147.0	154.8	–	–
Property (Acc)	291.9	307.3	–	–
International (Init)	236.3	248.8	-3.70	–
International (Acc)	469.3	494.0	-7.30	–
Fixed Interest (Init)	230.2	242.4	-0.30	–
Fixed Interest (Acc)	457.1	481.2	-0.60	–
Cash (Init)	154.0	162.2	+0.10	–
Cash (Acc)	306.6	322.0	+0.10	–
Others				
Capital Guarantee Bond	100.1	105.4	-0.40	–

Sun Alliance Group - Contd.

OFFSHORE INSURANCES

MANAGEMENT SERVICES

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

CANADA (SIB RECOGNISED)

GUERNSEY (SIB RECOGNISED)

GUERNSEY (REGULATED)(**)

IRELAND (SIB RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (SIB RECOGNISED)

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	Init Charge	Canc Price	Bid Price	Offer Price	+ or -	Yield Gr's
Prudential Fund Managers (Jersey) Ltd						
PO Box 193, St Helier, Jersey 0534 70200						
Prudential Currency Fd (Formerly Vanbrugh Currency Fd)						
Income (A & B)	5	212.0	212.0	222.0	-1.0	3.21
Growth (C & D)	5	319.3	319.3	335.3	-1.6	—
Royal Trust Jsy Fd Mngt Ltd (1400)F						
PO Box 428, St Helier, Jersey 0534 27441						
Govt Secs Fd	4	65.71	65.71	67.99	—	7.59
Standard Bank Fund Mngmt (Jersey) Ltd						
PO Box 583, St Helier, Jersey CI 0534 67557						
International Bond	5		$ 16.07	16.99	—	4.53
Sterling Bond	3		£ 9.842	10.18	—	[illegible]
Sterling Cap			£ 42.58	42.89	+0.01	[illegible]
TSB Trust Funds (CI)						
PO Box 538, St Helier, Jersey 0534 503002						
TSB Offshore Investment Fund Ltd						
Stg Deposit Class	3	102.51	102.51	105.58	+0.02	5.00
Gilt & Fixed Interest	3	120.59	120.59	124.38	+0.44	7.41
Blue Chip & Gilt Edged	5	61.71	61.71	64.96	-0.12	3.51
International Bond	3	137.53	137.53	144.61	-0.44	4.90
UK Equity	5	255.22	255.08	270.92	+0.05	1.25
International Equity	5	180.06	182.05	192.47	-0.13	[illegible]
Far Eastern	5	166.41	169.39	178.30	-1.03	0.00
European	5	128.71	127.24	133.94	+0.05	0.00
Pan American	5	369.52	373.50	393.15	+5.00	0.00
TSB Gilt Fund Ltd						
Quarterly Share	3	106.16	106.16	111.72	+0.18	7.52
Monthly Share	3	106.04	106.04	109.51	+0.18	7.87

JERSEY (REGULATED)(**)

	Bid Price	Offer Price	+ or -	Yield Gross
Barclays Intl Funds				
Asian Selection Funds				
China	$8.437	8.881	—	0.0
Hong Kong	$30.099	31.642	—	0.4
Indonesia	$18.327	19.071	—	0.0
Japan	$9.645	10.153	—	0.0
Korea	$11.590	12.200	—	0.0
Malaysia	$18.895	19.816	—	0.5

	Init Charge	Canc Price	Bid Price	Offer Price	+ or -	Yield Gr's
Bank Von Ernst & Cie AG - Contd.						
International Sub-Funds						
Global Equity		$	10.69	—	+0.12	—
Global Bond		$	11.63	—	-0.05	—
Global Bond Div		$	10.19	—	-0.04	—
Global Managed		$	8.57	—	+0.02	—
Banque Scandinave a Luxembourg SA						
16 Boulevard Royal, L-2449, Luxembourg						
Standfonds						
Standfond Equity Fund						
Equity Int. Acc	5	$	16.23	17.05	+0.04	3.17
Equity Global	5	$	1.45	1.53	+0.01	—
Equity Natural Res.	5	$	1.09	1.18	—	—
Equity Japan Acc	5	Y	108.35	113.77	-0.04	—
Equity UK	5	£	1.40	1.49	+0.01	—
Equity Nordic	5	$	1.22	1.29	+0.01	—
Equity North America	5	$	1.95	2.07	+0.02	—
Equity Mediterranean	5	$	0.87	0.93	+0.01	—
Equity Cont Europe	5	$	1.43	1.51	+0.02	—
Standfond Far East						
Far East Global	5	$	3.44	3.62	—	—
Standfond Bond Fund						
Bond Int. Acc	1	$	12.29	12.42	+0.06	[illegible]
Europe Bond Acc	1	$	1.54	1.55	+0.02	7.15
Bond DEM Acc	1	DM	1.23	1.25	—	[illegible]
Bond USD Acc	1	$	1.41	1.44	—	[illegible]
Bond Sweden Acc	1	SKr	18.36	18.53	[illegible]	[illegible]
Standfond International Shares						
Int Emerging Markets	5	$	1.05	1.11	—	—
Barclays Diversified Portfolio						
14 rue Aldringen L-1118 352 4799 2309						
IPB Deutschmark Reserve		DM	31.50	—	—	—
IPB Sterling Reserve		£	10.32	—	—	—
IPB Swiss Franc Reserve		SFr	30.60	—	—	—
IPB US Dollar Reserve		$	20.27	—	—	—
IPB European Bond		Ecu	17.05	—	—	—
IPB North American Bond		$	21.23	—	—	—
IPB Espana		Pta	2834	—	—	—
IPB Europe		Ecu	18.04	—	—	—
IPB Japan		$	27.16	—	—	—
IPB Pacific Rim		$	22.47	—	—	—
IPB United Kingdom		£	11.17	—	—	—
IPB United States		$	21.07	—	—	—
Barclays Inv Funds (Luxembourg)						
41 Avenue de la Gare L-1611 010 352 404344						

SWITZERLAND (SIB RECOGNISED)

OTHER OFFSHORE FUNDS

LUXEMBOURG (REGULATED)(**)

LUXEMBOURG (SIB RECOGNISED)

MANAGED FUNDS NOTES

CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGES

Lower yen

The yen reversed direction yesterday, losing ground to both the dollar and the D-Mark following another corruption scandal in Tokyo and a poor set of Japanese industrial production figures, *writes Sandeep Deol.*

The yen closed in London at Y63.26 to the D-Mark after Y62.36 on Monday. Against the dollar the Japanese currency finished at Y107.10 after Y106.05.

The yen had begun weaker in early European trading, following sales of the currency in the Far East. Later, the decline continued.

Reports that top officials at several Japanese construction firms had been arrested on bribery charges had prompted Far Eastern sales, with the market fearful that this could challenge the Liberal Democratic Party's retention of power at the general election on July 18.

Mr Nigel Richardson, international economist at Yamaichi in London, pointed to a weakening in the Japanese economy as having played a role in the yen's weaker tone. Industrial production data released yesterday showed a sharp output fall in May.

Mr Richardson forecasts that once the elections are over the Bank of Japan will ease interest rates to boost the economy. This sentiment seemed yesterday to be shared by others in financial markets, sparking general selling of the yen.

The D-Mark moved up to DM1.692 against the dollar in London yesterday from DM1.70 on Monday. Against the French franc, it improved to *FFr3.37 from FFr3.367.*

The D-Mark's firmer tone was supported by news that the German government had agreed to cut federal spending. The budget agreement raised hopes that the Bundesbank may cut official interest rates at tomorrow's council meeting.

Dr Paul Chertkow, head of global currency research at UBS, believes the central bank will cut the discount rate by ½ percentage point from 7.25 per cent. However, he said a rate cut would have been expected whether or not the new budget had been agreed. The weakened state of German industry demanded lower interest rates and a weaker currency, he said.

Speculation of an easing was boosted by evidence that the Bundesbank had been selling dollars and buying its currency in a move interpreted as boosting the D-Mark ahead of any possible monetary easing.

The dollar saw a slipped *slightly from its better levels* after the release of US leading indicators of economic activity for May. These showed a surprise 0.3 per cent fall against *forecasts* for a 0.3 per cent rise. The US consumer confidence index fell to 58.9 per cent in June from a revised 61.9 per cent in May. The market had expected a figure of around 61 per cent.

Sterling had a quiet day on the sidelines in the absence of economic data. It closed in London at $1.5040 and DM2.545 from $1.4980 and DM2.5375 on Monday.

£ IN NEW YORK

June 29	Latest	Previous Close
£ Spot	1.5045 - 1.5055	1.4960 1.4970
1 month	0.37-0.36pm	0.36 0.34pm
3 months	1.00-0.98pm	1.00 0.98pm
12 months	3.10-3.00pm	3.08 3.01pm

Forward premiums and discounts apply to the US dollar

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu Central Rates	Currency Amounts Against Ecu Jun 29	% Change from Central Rate	% Spread vs Weakest Currency	Divergence Indicator
Portuguese Escudo	192.854	186.433	-3.33	4.77	56
Spanish Peseta	154.250	149.871	-2.84	4.24	50
Irish Punt	0.808628	0.803433	-0.64	1.94	36
Dutch Guilder	2.19672	2.19773	0.05	1.24	6
Belgian Franc	40.2123	40.2818	0.17	1.11	1
D-Mark	1.94964	1.95968	0.51	0.78	-21
French Franc	6.53883	6.60174	0.96	0.32	-40
Danish Krone	7.43679	7.53223	1.26	0.00	-49

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate.
(17/9/92) Sterling and Italian Lira suspended from ERM. Adjustment calculated by Financial Times.

POUND SPOT - FORWARD AGAINST THE POUND

Jun 29	Day's spread	Close	One month	% p.a.	Three months	% p.a.
US	1.4895 - 1.5105	1.5035 - 1.5045	0.37-0.35cpm	2.87	1.00-0.97pm	2.62
Canada	1.9085 - 1.9330	1.9245 - 1.9255	0.31-0.22cpm	1.65	0.54-0.42pm	1.00
Netherlands	[illegible]	[illegible]	¼-½cdis	-1.31	⅝-⅝dis	-0.76
Belgium	52.00 - 52.40	52.30 - 52.40	2-6cdis	-0.92	8-16dis	-0.92
Denmark	9.7275 - 9.8075	9.7825 - 9.7925	1¾-3oredis	-2.91	4½-5dis	-2.15
Ireland	1.0370 - 1.0445	1.0400 - 1.0410	0.05-0.07cdis	-0.69	0.12-0.17dis	-0.56
Germany	2.5300 - 2.5475	2.5425 - 2.5475	⅜-½pfdis	-2.08	1-1⅛dis	-1.87
Portugal	240.50 - 242.75	241.00 - 242.00	116-128cdis	-6.08	318-346dis	-5.50

MONEY MARKETS

Muted speculation

TALK of possible cuts in German interest rates tomorrow was the dominant feature on European money markets as traders weighed up the implications of the slight rise in the D-Mark against other important currencies, *writes Peter Marsh.*

The consensus view was that members of the Bundesbank council may be pushed into a small cut in German official interest rates by the weight of pressure from industrialists and politicians both inside and outside Germany.

UK clearing bank base lending rate
6 per cent
from January 26, 1993

In support of such notions was the conciliatory tone sounded at the weekend to the idea of an easing in monetary policy by Mr Hans Tietmeyer, Bundesbank vice president.

Even so, there is a strong body of opinion on financial markets that the German central bank's worries about inflation and the recent weakness in the D-Mark may hold it back from any such action.

The fall by almost 1 pfennig in the dollar against the German currency to DM1.692 at the close of European trading last night slightly pushed the balance of possibilities in the direction of a cut in interest rates.

That seemed to be the reaction of investors trading Euromark futures, where the September contract closed slightly up at 93.21 from 93.19 the evening before. There was a similar upward movement in the December contract, which ended at 94.30 from 94.27.

The three month French franc contract changed in a similar direction, closing 3 basis points up at 93.70 from 93.67.

The sterling *money markets* saw little action as traders took the view that Mr Kenneth Clarke, the new chancellor, would almost certainly not cut interest rates in the next month or so until he has taken a broader view about the strength of any UK recovery.

Comments yesterday by the chancellor that the rise in the pound recently reflected "some confidence" in the UK's economic recovery had little impact on the market.

The September sterling futures contract closed unchanged at 94.15, as did the December contract, which was last night quoted at 94.33.

In its technical operations, the Bank of England injected £257m of late assistance into the banking system bringing the total cash handed out during the day to £1.4bn, compared to a forecast shortage of £1.75bn.

WORLD STOCK MARKETS

CANADA

TORONTO

INDICES

NEW YORK

DOW JONES

STANDARD AND POOR'S

	Jun 25	Jun 18	Jun 11	year ago (approx)
Dow Industrial Div. Yield	2.85	2.85	2.89	3.14
	Jun 23	Jun 16	Jun 9	year ago (approx)
S & P Industrial div. yield	2.55	2.51	2.51	2.72
S & P Ind. P/E ratio	25.84	25.47	25.42	26.83

NEW YORK ACTIVE STOCKS

Monday	Stocks traded	Closing price	Change on day
[illegible]	3,246,200	30	+ ⅛
Gen Motors	2,765,200	44½	+ 1⅝
Chrysler	2,705,700	47	+ 1⅛
Wal-Mart	2,661,300	25⅝	—
[illegible]	2,246,200	25⅝	- 6⅛
[illegible]	2,200,500	22⅝	+ 5⅞
K Mart	2,030,700	26½	+ ⅛
[illegible]	1,885,000	10⅞	+ ⅛
Merck	1,815,700	35	- ⅛
[illegible]	1,665,200	4⅛	- ⅛

TRADING ACTIVITY

† Volume (Millions)	June 28	June 25	June 24
New York SE	240.435	205.828	260.839
Amex	14.578	17.255	16.132
NASDAQ	227.013	219.380	227.180
NYSE			
Issues Traded	2,540	2,515	2,504
Rises	1,378	1,089	1,126
Falls	593	768	761
Unchanged	567	658	647
New Highs	122	65	57
New Lows	27	38	37

CANADA TORONTO

	June 28	June 25	June 24	June 23	1993 HIGH	1993 LOW
Metals & Minerals	2983.40	2947.59	2978.04	2973.49	3000.87 (21/6)	2743.31 (21/1)
Composite	3955.39	3991.77	3979.39	3951.63	3991.77 (25/6)	3275.80 (21/1)
MONTREAL Portfolio	1997.45	1939.10	(c)	1930.68	1939.10 (25/6)	1720.87 (21/1)

TOKYO - Most Active Stocks

Tuesday, June 29, 1993

	Stocks Traded	Closing Prices	Change on day
Stanley Elec	5.1m	810	+72
Tsumura & Co	3.1m	1,530	+30
Nikon Corp	2.5m	980	-13
Asahi Bank	2.6m	1,200	-30
Nippon Steel	2.5m	369	-3
Citizen Watch	2.4m	1,000	-30
Sumitomo Mtl Min	2.4m	988	-32
Sumitomo Mtl Ind.	2.1m	324	-6
Toshiba Corp	2.0m	679	-6
Nishimatsu Constr.	2.0m	1,010	-60

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

4 pm close June 29

1993 High	Low	Stock	Div	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
14⅝	11½	AAR Corp	0.48	3.6	25	81	13½	13¼	13½	+¼
28⅜	20	A L Labs A	0.18	0.7	46	206	26¾	26¼	26¾	+½
63⅞	54⅝	AMP Inc	1.60	2.6	22	1798	62	61⅝	61⅝	-⅝
72¾	65½	AMR			9	3334	62⅞	61¾	62⅛	-⅝
2¼	1⅛	ARX			13	19	2⅛	2⅛	2⅛	
51½	29⅞	ASA	2.00	4.2	31	926	48⅝	47⅞	48⅛	+⅝
30¾	22⅝	Abbott Lab	0.68	2.6	16	6447	26⅛	25⅝	26	-⅛
12⅝	10¼	Abitibi Pr	0.50	4.7	4	10	10¾	10¾	10¾	+⅛
14⅛	8¼	[illegible]			210	119	12⅝	12⅜	12⅝	-⅛
32	25½	ACE Ltd	0.40	1.4		771	29	28¾	29	+¼
11¾	10¾	ACM Gvt In	0.96	8.3		303	11⅝	11½	11½	-⅛
10	9⅛	ACM GvOpp	0.80	8.2		225	9¾	9⅝	9¾	+⅛
9⅝	8¾	ACM Gvt Sp x	0.80	8.5		162	9½	9¼	9⅜	
11⅞	10½	ACM Gvt Se x	0.96	8.7		255	11⅛	11	11	
11	9⅝	ACM Man	1.08	9.9		190	11	10⅞	10⅞	
9⅜	8⅝	ACM Managd	0.72	7.9		282	9⅛	9	9⅛	
11⅞	7¾	Acme Cleve	0.40	3.6	14	319	11	10½	11	+⅜
9¼	6½	Acme Elect			283	11	8½	8½	8½	+⅛
24¾	18⅜	Acordia	0.44	2.0	13	145	21¾	21⅛	21¾	+⅜
16	10⅜	Acuson			12	1031	11¾	11⅜	11⅜	-⅜
22¼	19⅝	Adams Expr	0.48	2.4	1	87	20½	20¼	20⅜	
58	45½	Ad Micro	3.00	5.6		1333	54	52	53½	+2⅜
32¾	17⅞	Ad Micro P	3.00	12.5		1019577	24	22⅞	24	+1⅞
7¾	5½	Advest Grp	0.16	2.8	9	68	5⅞	5¾	5¾	
24¾	20	Advo Inc	0.08	0.4	21	4356	20½	d19	20⅜	-1½
49⅜	41⅛	Aegon ADR	2.95	6.7	8	191	44	43⅝	43¾	-⅜
55⅞	43⅞	Aetna Lf	2.76	5.0	142	4536	55¾	54⅞	55⅝	+⅝
14½	11⅛	[illegible]	0.26	1.9	31	3814	13⅞	13⅝	13¾	-⅛
32¼	26⅜	Aflac	0.40	1.4	15	1615	28⅝	27⅞	28½	+½
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Continued on next page

4 pm close June 29

NYSE COMPOSITE PRICES

Continued from previous page

- S -

1993 High	Low	Stock	Div	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
22	15½	S Anita Rt	1.36	7.4	18	139	19	18½	18½	-⅛
20¾	16¾	SCOR US Cp	0.32	2.0	201	6	16⅛	d16⅛	16⅛	-⅛
28	20	SPS Techno	1.28	4.9	19	11	26½	26⅛	26⅛	-¼
14½	12⅞	Sabine Rt	1.04	8.0	9	12	13	13	13	-⅛
13¾	8⅞	Safecard	0.20	1.5	12	90	13⅛	12⅞	13	+⅛
23½	16⅞	Safeg'd Sc			8	10	17½	17½	17½	
24¾	16¾	SafetyKln	0.36	2.1	24	325	17¾	17½	17½	-⅛
18½	10⅞	Safeway			24	936	15⅞	15⅛	15⅛	-⅛
3⅝	2	SafewayW96				24	3⅛	3⅛	3⅛	
44½	37½	StJoePaper	0.20	0.5	94	273	39⅝	39	39½	+⅜
37¾	31	StJoeL&P	1.76	5.0	14	18	35½	35¼	35¼	-¼
83¾	75	St Paul's x	2.80	3.6	12	904	80	78¾	78¾	-1⅝
9⅝	7⅞	Salant Crp			6	87	u9¾	9¼	9¾	+½
75¼	39⅞	Sallie Mae	1.20	2.9	9	2702	42⅞	40¾	40¾	-1⅛
13⅞	13	Salomon Br	0.36	2.7		890	13½	13¼	13½	+⅛
41⅞	34	SalomonInc	0.64	1.7	20	919	39⅝	38½	38½	-⅝
26⅞	23¼	SanDgo G&E	1.48	5.6	14	315	26⅝	26⅛	26¼	-⅜
4⅞	3½	SantaFeEDe	0.40	10.7	167	21	3¾	3¾	3¾	-⅛
11⅞	9⅛	SantaFeEEs	0.16	1.5	107	1183	10⅝	10¼	10⅝	
40¾	35¼	SantaFePac	2.80	7.3	13	43	38¾	38⅛	38¼	-½
18	12¾	SantaFeSth	0.10	0.6	19	6128	17⅝	17	17½	+½
31⅛	23⅞	Sara Lee	0.56	2.4	18	4903	24⅞	24½	24⅝	+⅛

- T -

- U -

- V -

- W -

- X - Y - Z -

NASDAQ NATIONAL MARKET

4 pm close June 29

- B - - C - - D - - E - - F - - G - - H - - I - - J - - K - - L - - M - - N - - O - - P - Q - - R - - S - - T - - U - - V - - W - - X - Y - Z -

AMEX COMPOSITE PRICES

4 pm close June 29

FINANCIAL TIMES Wednesday June 30 1993

AMERICA

Bearish economic data leaves Dow depressed

Wall Street

ALTHOUGH the latest batch of bad economic news depressed leading US stocks yesterday, low bond yields kept declines to a minimum in the broader market, *writes Patrick Harverson in New York.*

At 1 pm, the Dow Jones Industrial Average was down 17.44 at 3,512.76. The more broadly based Standard & Poor's 500 was 1.29 lower at 450.56, while the Amex composite was up 0.61 at 433.47, and the Nasdaq composite down 0.45 at 702.39. Trading volume on the NYSE was 171m shares by 1 pm.

The morning's economic news was bearish for stocks. The May leading indicators, key barometers of future economic activity, registered a decline of 0.3 per cent. Also, May home sales plunged by 21 per cent, a much bigger than anticipated decline; and consumer confidence, as measured by the Conference Board, fell for the sixth time in the last seven months, from a measure of 61.9 per cent in May to 58.9 per cent in June.

The data suggested that the economy continues to struggle, in spite of low interest rates, and does not bode well for the corporate earnings outlook. While all of this is bad news for stocks, the sluggish economy has boosted bond prices, sending yields down to record levels. The low yields have helped prop up equities which, otherwise, might have been in full retreat.

The bad economic news, however, hit cyclical stocks hard. Allied Signal fell $1⅞ to $67⅛, Caterpillar lost $1 at $74¼, International Paper dropped $⅝ to $63⅜ and Goodyear Tire & Rubber slipped $⅜ to $41⅛.

Aluminium Co of America bucked the trend among cyclicals, rising $⅛ to $68⅜ as investors cheered the news that the company will cut its domestic primary aluminium capacity by a quarter and lay off about 750 employees. The move is an attempt to reduce the worldwide overcapacity in aluminium.

Technology stocks, which benefited from Monday's rally, gave back some of their gains. Compaq plunged $4⅛ to $49⅞, Digital Equipment dropped $1⅛ to $41⅝, IBM fell $1⅝ to $48⅞, and Hewlett-Packard gave up $⅝ at $82⅝.

On the Nasdaq market, however, technology stocks were mixed, with Intel up $⅞ at $56⅞ but Apple down $⅞ at $39.

HEAVY demand for YPF, Argentina's recently-privatised oil company, pushed its shares to a US$6 premium in frantic grey market trading in Buenos Aires, *writes John Barham.* Against an offer price of $19, YPF stock reached $25 by lunchtime, due to heavy demand from institutional investors. However, euphoria over YPF depressed other stocks, with the Merval share index falling by 1.7 per cent.

Canada

TORONTO continued to be affected by weakness in Northern Telecom, as the TSE-300 composite index lost 7.53 to 3,957.92 by midday.

However, some of the losses were offset by strength in base metals, the sub index rising 12.74 to 2,946.20.

Northern Telecom lost a further C$2⅝ to C$34⅞.

EUROPE

Bourses hover as rate talk continues

DISCUSSION yesterday seemed to centre on whether the German Bundesbank will reduce interest rates tomorrow – its first key interest rate cut since April 22 – or whether it will wait until July 15, *writes Our Markets Staff.*

FRANKFURT levelled out, the DAX index closing just 1.13 higher at 1,708.33 after gaining 10.91 on Monday. Detailed plans for government spending cuts sat uncomfortably with the recent concentration on cyclical recovery prospects; interest rate cut hopes, a possible corollary, were muted.

Turnover rose from DM6.1bn to DM7bn. Apart from a DM2.90 decline to DM260.60 in Hoechst, which said that it faced a period of losses from its east German chemical activities, cyclicals did not come under obvious pressure.

The best gain of the day came from AMB, the non-life insurer, up another DM50 to DM1,120 in spite of a broker's sell recommendation, for a rise of 24 per cent this month. The company disposed of its biggest problem – a majority holding in the trade union-associated, and accident prone BfG bank – at the end of last year.

PARIS fell back on profit-taking ahead of today's expiry of options and futures. The CAC-40 index lost 13.45 to 1,977.50, just off the day's low.

Euro Disney, denying reports that it may cut staff, slipped FFr1.45 to FFr68.35. Spie Batignolles, which said that it expects a further recovery in business this year, put on FFr5.50 to FFr354.50 and its parent company, Schneider, gained FFr10 to FFr669.

MILAN was cautious as investors awaited further developments in talks between the government, unions and employers on a wage accord, while Fiat came under early pressure ahead of the annual meeting scheduled for today.

The Comit index fell back 4.93 to 535.41.

Commenting on the wage talks, Kleinwort Benson analysts Mr Enrico Ponzone and Ms Fiona Marshall note that agreement is likely: "The gravity of the economic situation, the level of unemployment and the relative weakness of the unions bode well for a positive outcome".

There was progress on the other major issue overhanging the market, the 1994 budget, as Mr Carlo Azeglio Ciampi, the prime minister, said that he planned to present a draft by the middle of next month.

Fiat slipped L119 to L6,332 at the fix, before rising to L6,440 on the kerb.

The telecommunications sector advanced in expectation of the publication of a plan today on restructuring of the sector. Stet rose L25 to L3,450, and then to L3,535 on the kerb, for a new year's high. Sip put on L22 to L2,563.

Montedison and Ferruzzi, which had been suspended on Monday, fell back as investors reacted to news of deeper losses at the former. Montedison lost L74.50 to L789.00 and Ferfin by L46.90 to L498.50.

ZURICH was lifted by banks and other defensive stocks, and depressed by cyclicals. The SMI index finished just 1.7 higher at 2,371.4.

UBS bearers were the most active stock at SFr1,095, up SFr125, but Brown Boveri lost SFr17 to SFr807 following a drop in the share price of its Swedish partner, Asea, after a block sale in Stockholm, and Sulzer lost SFr21 to SFr712 after a sell recommendation by a private bank.

STOCKHOLM saw some 7m shares in Asea, the engineering conglomerate, sold by Investor early in the session, with more than 50 per cent of the shares placed with foreign institutions. Asea's B shares lost SKr22 to SKr430 while Investor B's gained SKr2 at SKr118.

The Affärsvärlden general index rose 2.5 to 1,077.9.

HELSINKI improved for the third consecutive session, the Hex index closing 1.7 per cent higher at 1,157.7.

Huhtamaki, the confectionery, pharmaceutical and packaging group, was suspended at its own request at FM186, prior to its announcement that it was to take over the European confectionery operations of Procordia of Sweden.

FT-SE Actuaries Share Indices — THE EUROPEAN SERIES

June 29 Hourly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FT-SE Eurotrack 100	1209.81	1209.49	1209.53	1210.92	1210.84	1210.64	1208.94	1207.97
FT-SE Eurotrack 200	1263.12	1263.01	1262.27	1263.44	1264.36	1263.59	1263.61	1263.58

	Jun 28	Jun 25	Jun 24	Jun 23	Jun 22
FT-SE Eurotrack 100	1210.15	1202.12	1199.58	1197.17	1198.69
FT-SE Eurotrack 200	1265.02	1254.67	1251.56	1249.23	1253.34

Base value 1000 (26/10/90) High/day: 100 - 1211.55; 200 - 1265.24 Low/day: 100 - 1207.28 200 - 1260.84.

ISRAEL

TEL AVIV scored a 6.7 per cent gain after the Treasury ruled out imposing taxes on stock market profits, *writes Julian Ozanne in Jerusalem.*

The Mishtanim index rose 12.45 to 199.47, in heavy turnover of Shk237m ($84.6m).

On Tuesday, the Mishtanim had fallen to its lowest level since last November.

However, Mr Abraham Shohat, Israel's finance minister, ended months of uncertainty on Tuesday evening, saying that he had decided to rule out a capital gains tax to inject stability into Israel's capital market.

Mr Shohat also said that the imposition of a new tax would have hampered government plans to privatise several state-owned companies by selling shares to the public.

Foreigners frustrated as Seoul stocks climb high

John Burton on a lack of South Korean liquidity

These are frustrating times for foreign investors in the Seoul bourse. Eighteen months after the stock market was opened to direct foreign investment, the exchange's most attractive shares are no longer available because they have reached the 10 per cent limit on foreign ownership.

Ninety-nine of the bourse's 693 listed issues have had their foreign shareholding quota filled, with another 60 close to the ceiling. Most of the remaining stocks are either too small in terms of capitalisation, or too obscure to attract foreign institutional investors.

"If ten fund managers decided today that they each wanted to buy $2m of a non-financial stock, they would have only 16 companies to choose from," explains Ms Joanna Newman, an analyst at WI Carr in Seoul. "Within a few months, we think that there will be nothing left to buy."

Companies associated with Hyundai and Samsung, considered the strongest industrial groups in South Korea, were the first to reach their foreign ownership limit.

Overseas buyers have since turned their attention to other big conglomerates, such as Daewoo and Lucky-Goldstar.

As the pool shrinks, "foreigners are buying shares they otherwise would never have bought," notes Mr John Wadle with the Seoul office of BZW.

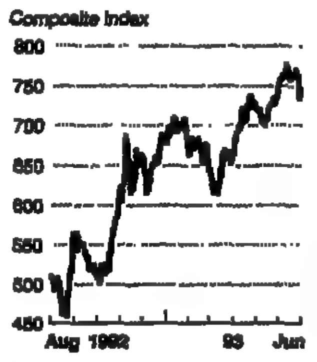
The troubled banking and petrochemical sectors offer the only large bloc of shares still available to foreigners, together with Korea Electric Power (Kepco), the state electricity monopoly.

The foreign ownership limit is particularly troublesome to US fund managers, who did not enter the Seoul bourse in force until last autumn and found that UK investors, who initially dominated foreign buying, had already captured Korea's choicest companies.

It is one reason why Washington is pressuring Seoul to raise the the foreign ownership ceiling. Mr Hong Jae-hyong, the finance minister, has promised to do so eventually, but any increase is not likely to come until next year, when most analysts believe it will be raised to 15 per cent.

South Korea

Composite index



Source: Datastream

The government argues that the foreign shareholding ceiling should be raised in stages, fearing that excess funds from abroad could add inflationary pressure by increasing the money supply. The net inflow of foreign funds for stock purchases has so far reached $2.65bn this year.

"There is no reason to raise the foreign ownership ceiling now since there are plenty of stocks still available to foreigners. They have bought only 47 per cent of the number of shares available to them," says Mr Lim Chang-Yuel, the assistant minister of finance.

But WI Carr estimates that only 40 per cent of the foreign quota remains open on a market capitalisation basis, and the ratio falls to 32 per cent once three large bank stocks (Commercial Bank of Korea, Cho Hung, and Bank of Seoul) and Kepco are excluded.

Most foreign brokers complain that the real reason the government is unwilling to raise the ceiling soon is that both officials and businessmen are reluctant to see foreigners acquire a substantial stake in the country's main industries. "It's xenophobia, pure and simple," says one.

One factor that could force the government to change its mind is that foreign investment has been an important psychological factor behind the bourse's recovery from a low of 459 last August to 745 yesterday. "If foreign buying tails off, as it is already starting to do, and the market drops sharply, then the government may be tempted to raise the limit to bolster share prices," says Mr Stephen Marvin, head of research at Jardine Fleming in Seoul.

In the meantime, foreign investors may consider several alternative measures to obtain Korean shares. One is the unofficial over-the-counter market for foreigners.

In spite of the absence of a computerised pricing system for OTC transactions and the considerable short-term risks involved in such deals, "fund managers are now willing to pay high premiums to acquire blue-chip shares rather than settle for third-rate stock still on the open market," according to Mr Marvin.

Another option is the purchase of offshore paper issued by Korean companies, such as global depositary receipts (GDRs), But the government is now trying to restrict offerings because it is concerned that the funds repatriated home will boost money supply and increase inflationary pressure.

ASIA PACIFIC

Construction raids sink Nikkei at close

Tokyo

STOCKS ended sharply lower on reports that four major construction companies had been raided by prosecutors on bribery charges, *Reuter reports from Tokyo.*

Prices also fell on arbitrage unwinding and profit-taking in thin trade as investors grew wary over political worries.

The Nikkei average finished down 343.34, or 1.7 per cent, at the day's low of 19,543.42, after a day's high of 19,854.93. Volume was 220m shares with declining issues leading advancers by three to one.

The Topix index of all first section stocks lost 19.21 or 1.2 per cent at 1,581.26 and, in London, the ISE/Nikkei 50 index rose 1.09 to 1,196.67.

The market opened lower following the fall in Nikkei futures in Chicago overnight and failed to recover the opening level all morning due to arbitrage unwinding and profit-taking. Prices started to fall sharply before the close on news that four major construction groups had been raided by prosecutors on bribery charges.

According to a television report, state prosecutors had arrested senior officials of some construction companies for alleged involvement in the bribery of the mayor of a city in northern Japan.

The construction scandal renewed concern over domestic politics after investors had been relieved on Monday following the better than expected results in Sunday's Tokyo city elections.

Brokers said that investors were also wary about taking fresh positions ahead of the G7 summit in Tokyo next week.

Construction stocks lost ground: Nishimatsu Construction fell Y80 to Y1,010, Mitsui Construction by Y34 to Y505 and Shimizu by Y50 to Y820.

Bridgestone, which cut its outlook on parent profits by some 30 per cent on Monday, slipped Y50 to Y1,240.

Kawasaki Steel slid Y3 to Y355, NKK also lost Y3 to Y309, and Kobe Steel fell Y15 to Y330 after the three companies announced group losses.

Banking shares fell on profit-taking on expectations of a discount rate cut in the near future. Sanwa Bank and Tokai Bank slipped Y50 to Y2,230 and Y1,390 respectively.

Roundup

THERE were mixed fortunes in the region yesterday.

HONG KONG closed lower as investors took a lack of political news as a signal to take profits following Monday's steep rise.

The Hang Seng index ended 40.63 lower at 7,107.47 in turnover of HK$4.8bn.

Brokers said that there was diminished interest in companies considered as possible targets for takeover by mainland investors seeking a backdoor listing in Hong Kong.

Dynamic Holdings, seen as a possible takeover target, was one exception, rising to HK$1.22 before sinking back to finish unchanged at HK$1.03.

SINGAPORE finished higher on bargain hunting with gains notable among industrial issues. The Straits Times Industrial index closed 25.38 higher at 1,806.52.

A report that economists have revised their second quarter economic growth forecast to 6.8 per cent from 6.6 per cent also boosted sentiment.

F & N rose 60 cents to S$12.30 after a healthy interim report.

KUALA LUMPUR retreated in the afternoon to close slightly lower on profit-taking. The composite index closed down 1.49 at 720.58 after earlier touching a high of 727.77.

However, Telekom Malaysia went against the trend, rising 20 cents to M$15.20.

TAIWAN reversed early losses to end higher on late buying in banking stocks.

The weighted index, which fell 57 points at one stage, ended 23.37 up at 4,067.83. Turnover was a thin T$16.7bn.

MANILA rose for the second day but some analysts said that the market was still in a consolidation phase.

The composite index rose 12.37 to 1,568.78, pushed up largely by the mining index.

Turnover was 313.38m pesos against Monday's 271.7m pesos.

AUSTRALIA closed off its highs as year-end book-squaring dominated trading. Most blue chips fell, but gold and bank stocks were firmer.

The All Ordinaries index closed up 3.4 at 1,718.5 in turnover of A$383.3m.

NEW ZEALAND, propelled by strength in Telecom and Fletcher Challenge, again came near to breaking through its three-year closing high.

The NZSE-40 index ended 11.80 higher at 1,679.34 in turnover of NZ$32m.

BOMBAY closed higher after a news conference on Monday by the stockbroker at the centre of India's $1.3bn securities scandal failed to produce new revelations. The BSE index gained 51.02 to 2,213.

SOUTH AFRICA

SHARES ended near the day's lows after drifting down during the session. Gold stocks were softer after bullion failed to hold Monday's levels, the index falling 20 to 1,876. Industrials shed 18 to 4,692 and the overall 20 to 4,054.

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co. and NatWest Securities Limited in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS (Figures in parentheses show number of lines of stock)	MONDAY JUNE 28 1993: US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	FRIDAY JUNE 25 1993: US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX: 1993 High	1993 Low	Year ago (approx)
Australia (68)	131.13	+0.7	130.22	87.91	115.90	130.32	+0.8	3.84	130.18	130.58	87.27	115.19	129.27	144.19	117.39	146.31
Austria (18)	148.06	+1.0	147.03	99.26	130.86	130.84	+0.8	1.48	146.60	147.05	98.27	129.72	129.84	150.98	131.16	174.62
Belgium (42)	144.67	+0.5	143.67	96.98	127.88	124.69	+0.3	4.59	144.00	144.45	96.52	127.42	124.29	156.76	131.19	145.44
Canada (108)	128.06	-1.8	127.17	85.84	113.18	119.07	-1.7	2.83	130.36	130.77	87.39	115.35	121.06	130.38	111.41	126.13
Denmark (33)	216.91	+1.7	215.39	145.41	191.71	192.57	+1.6	1.17	213.23	213.90	142.95	188.68	189.60	225.64	185.11	246.39
Finland (23)	87.81	+2.6	87.20	58.87	77.01	105.61	+2.6	1.15	85.55	85.81	57.35	75.70	102.92	100.92	65.50	70.91
France (97)	154.75	+1.7	153.67	103.73	136.76	138.91	+1.3	3.25	152.10	152.57	101.96	134.58	137.13	167.36	142.72	165.63
Germany (62)	109.37	+0.6	108.60	73.32	96.66	96.66	+0.5	2.19	108.75	109.09	72.91	96.23	96.23	117.10	101.59	127.00
Hong Kong (55)	289.46	+2.1	287.44	194.04	255.85	287.68	+1.9	3.28	283.65	284.53	190.14	251.00	282.32	301.61	218.82	258.03
Ireland (15)	159.54	+1.7	158.42	106.95	141.00	158.65	+1.8	3.44	156.94	157.43	105.21	138.87	153.95	170.40	129.28	160.28
Italy (72)	67.75	+0.3	67.28	45.41	59.88	78.35	+0.9	1.99	67.57	67.78	45.29	59.79	77.64	72.82	53.78	70.40
Japan (470)	149.66	+1.0	148.61	100.32	132.29	100.32	+1.0	0.83	148.14	148.60	99.30	131.10	99.30	155.96	100.75	95.83
Malaysia (69)	326.00	+2.1	323.73	218.53	288.12	324.49	+2.0	2.08	319.44	320.44	214.13	282.65	318.27	349.34	251.66	240.95
Mexico (18)	1494.08	+0.9	1483.61	1001.54	1320.46	5093.23	+1.0	1.33	1481.08	1485.70	992.85	1310.56	5043.41	1725.81	1410.30	1396.82
Netherland (24)	166.83	+0.9	165.67	111.84	147.46	145.09	+0.7	3.79	165.27	165.78	110.79	146.24	144.03	172.75	150.39	163.22
New Zealand (13)	49.64	+0.6	49.29	33.28	43.88	49.13	+0.8	4.54	49.35	49.50	33.08	43.67	48.76	49.62	40.56	46.06
Norway (22)	152.42	+0.3	151.36	102.18	134.71	148.64	+0.5	1.77	151.91	152.38	101.83	134.42	147.89	168.21	137.71	173.20
Singapore (38)	247.29	+1.3	245.56	165.77	218.55	184.95	+1.1	1.96	244.17	244.93	163.68	216.06	183.02	262.72	207.04	221.93
South Africa (60)	198.09	+0.1	196.71	132.79	175.07	204.14	+0.6	2.47	197.82	198.44	132.61	175.04	203.00	201.01	144.72	223.67
Spain (46)	124.76	-0.1	123.89	83.64	110.26	123.20	+0.3	4.78	124.82	125.21	83.68	110.45	122.84	132.82	115.23	152.96
Sweden (36)	165.41	+0.7	164.26	110.89	146.20	190.41	+1.4	1.75	164.27	164.78	110.12	145.36	189.80	184.06	149.70	194.29
Switzerland (52)	127.52	+1.2	126.63	85.49	112.72	110.02	+0.6	1.63	125.99	126.38	84.46	111.50	116.06	129.36	108.91	111.44
United Kingdom (219)	175.69	+1.3	174.47	117.76	155.27	174.47	+0.3	3.88	173.36	173.90	116.20	153.38	173.90	181.99	162.00	192.28
USA (519)	184.81	+1.0	183.52	123.89	163.34	184.81	+1.0	2.77	182.89	183.46	122.61	161.84	182.89	186.27	175.36	166.56
Europe (761)	143.88	+1.1	142.88	96.46	127.17	136.80	+0.6	3.25	142.30	142.74	95.39	125.92	136.02	149.02	133.92	154.77
Nordic (114)	158.14	+1.1	157.03	106.01	139.77	160.74	+1.5	1.55	156.37	156.86	104.82	138.37	159.37	171.77	142.13	180.97
Pacific Basin (713)	152.80	+1.1	151.83	102.50	135.13	106.79	+1.1	1.10	151.25	151.73	101.40	133.84	105.66	159.07	105.89	102.80
Euro-Pacific (1474)	149.06	+1.1	148.04	99.93	131.76	119.34	+0.9	1.95	147.47	147.93	98.85	130.48	118.27	154.05	117.26	123.79
North America (627)	181.27	+0.9	180.01	121.53	160.24	180.33	+0.9	2.77	179.61	180.17	120.42	158.96	178.67	182.38	171.51	164.02
Europe Ex. UK (542)	124.23	+1.0	123.36	83.29	109.82	115.48	+0.9	2.75	123.05	123.43	82.50	108.90	114.50	128.65	112.51	132.06
Pacific Ex. Japan (243)	185.25	+1.5	183.96	124.20	163.75	172.19	+1.5	3.19	182.47	183.03	122.34	161.47	169.71	194.08	152.70	173.15
World Ex. US (1660)	149.68	+1.0	148.64	100.35	132.30	121.49	+0.8	1.88	148.20	148.67	99.36	131.14	120.50	154.27	118.51	125.75
World Ex. UK (1960)	158.96	+1.0	157.85	106.57	140.51	137.67	+1.0	2.11	157.42	157.91	105.53	139.31	136.35	161.34	134.22	133.50
World Ex. So. Af. (2119)	160.30	+1.0	159.18	107.47	141.69	140.60	+0.9	2.28	158.67	159.17	106.38	140.42	139.23	162.74	137.29	139.02
World Ex. Japan (1709)	168.10	+1.0	166.93	112.70	148.59	163.93	+0.9	2.94	166.41	166.93	111.57	147.28	162.53	170.05	157.47	162.44
The World Index (2179)	160.45	+1.0	159.33	107.56	141.82	141.04	+0.9	2.28	158.84	159.33	106.48	140.56	139.77	162.86	137.32	138.58

Constituent changes with effect from 30/6/93: Additions: SMH (Reg.10) and SMH (Br.50). Deletion: SMH (Reg.100). (Switzerland). Name change: Royal Trustco to Gentra Inc. (Canada). Latest prices were unavailable for this edition.

FINANCIAL TIMES SURVEY

ITALY

Perilous times for mayors of big cities
Page 2

Wednesday June 30 1993

Italy has been undergoing profound changes which strike at the very heart of the political and economic system. Robert Graham discusses the reforms taking place, as the country embarks on rapid modernisation in an attempt to keep up with its European partners

A move into the fast lane

EVENTS in Italy seem to possess a never-ending capacity to surprise.

A car bomb explodes at the Uffizi Gallery in Florence; seven times premier Giulio Andreotti is accused of consorting with the Mafia and plotting to kill a journalist; the Ferruzzi family surrenders control of the second biggest private industrial group amid a mountain of debt; Carlo Azeglio Ciampi, the former governor of the Bank of Italy, becomes the first non-politician this century to be prime minister.

Things are happening with such bewildering speed, there is a risk of analytical indigestion.

Within the space of the past 12 months, Italy has had two prime ministers. There have been no fewer than five different people holding the finance ministry and three foreign ministers. The leaders of five parties have stepped down, and the Socialist leadership has changed twice.

These changes are some of the many symptoms of the profound process of political and economic transformation overtaking Italy. Amid considerable confusion, the nation is casting off a corrupt political system and reshaping the dominant role of the state in the economy through liberalisation and privatisations. In a great hurry, and in forced circumstances, Italy is attempting to modernise itself and carry out reforms to avoid being left in the slow lane of Europe, isolated on the other side of the Alps.

Historians will have to decide whether Italy has embarked on a revolution. At this stage it looks more akin to a movement restoring a democracy which was hijacked by a corrupt establishment. The present phase is clearly transitional, leaving behind the First Republic with its constitutional laws that encouraged a series of mutually balancing (and neutralising) institutions, shaped by the trauma of fascism and the needs of what was still a poor country.

In this phase anomalies are bound to exist. The composition of parliament for instance, no longer represents the mood of the electorate. In the light of this month's partial municipal elections the four-party coalition, which is notionally the basis for the Ciampi government's parliamentary majority, represents only 20 per cent of the vote.

The parties themselves are in mutation seeking new alliances, fresh identities and credible policies. The long-ruling Christian Democrats and Socialists are disintegrating, while the populist Lombard League of Umberto Bossi has taken over the rich industrial north, planting its flag in the municipality of Milan. The former communist party, Party of the Democratic Left (PDS), retains old allegiances in the centre. The country's political geography is being redefined with a strong pull towards less central control and more recognition of regional initiative and identity. The spectre of a northern secession spearheaded by the League is still a mixture of bluff and astute tactics by a north impatient with Rome's reluctant reformism.

With so many vested interests at stake, there has been considerable behind-the-scenes resistance – especially over lessening political control in the state companies. Such rearguard action is one reason why the pace of privatisation has been so disappointingly slow. A more sinister reaction has been last month's car bombs in Rome and Florence. Although the precise authorship of these outrages remains unclear (the authorities have blamed the Mafia), the message is unmistakeable: there are still people willing to create a climate of tension. But this is not the Seventies and society is in no mood to put up with such blackmail.

External pressure for change has played, and will continue to play, an important role. The financial markets and Italy's EC partners have obliged the government and parliament to reduce the huge public sector deficit and lower the mountain of debt to meet Maastricht Treaty criteria. This has meant cutting state hand-outs, reassessing the funding of the welfare state and ending featherbedding in the public sector. Any lingering doubts on this score were brought home by the September currency crisis and the lira's enforced exit from the European Monetary System.

Internally, the magistrates and electorate (through the elections and referendums) take near equal credit. The old guard of politicians has been discredited and swept aside by the nationwide efforts of magistrates investigating corruption. No modern democracy has witnessed such devastating action by the judiciary – one in six members of the chamber of deputies is under investigation for corruption.

Through a deliberate policy of leaking information to the press, the magistrates have laid bare the incestuous structure of power that evolved in the post-war years under the guise of defending Italy against communism. The parties in government enriched themselves by demanding fat bribes from businessmen in return for contracts and political protection; business in most cases appeared more than happy to oblige, and certainly never complained in public.

Some of the most important company names and their managers have been caught and damaged by the scandals which touch every area of activity from kick-backs on fixing pharmaceutical prices to percentages on power stations contracts.

In this climate, the long taboo subject of political links with the Mafia is being touched. The political protection given to organised crime is one of the explanations why the Mafia has survived and prospered so long in the south. Investigation of these links may help elicit the truth behind the countless unsolved mysteries of the past which rest on the nation's conscience – such as the kidnap and murder of former premier Aldo Moro.

The Mafia's power is beginning to crack – another important element in the process of change. The Amato and now the Ciampi governments can claim credit for putting in place more effective measures to fight organised crime. But public pressure for action could scarcely be ignored in the wake of the killings of the two leading anti-Mafia magistrates, Giovanni Falcone and Paolo Borsellino.

Public pressure has also been vital in pressing electoral reform as the prerequisite for political renewal. It is an eloquent commentary on the outgoing political class that parliament has been obliged to accept electoral reform rather than anticipate it. As a result of the April referendum, majority voting is being introduced for 75 per cent of the seats, the remainder retaining the old system of proportional representation.

However, to be fair, the previous government of Professor Giuliano Amato never had the parliamentary backing to press political reform. Prof Amato made a valuable contribution to the transition, and even accelerated it by attacking public spending, initiating reforms of the civil service and regional administration and removing political appointees from state companies. However, he fell in May in good measure because his four-party coalition lacked the moral authority to impose new electoral laws.

Mr Ciampi was a choice of last resort by President Oscar Luigi Scalfaro. No-one else could command sufficient prestige and be above the party fray; and he stepped in out of a sense of duty even though he was ready to retire from the Bank of Italy.

He has stated his task is twofold – oversee electoral reform and draw up another austerity budget for 1994, with the clear aim of calling elections as soon as possible.

Legislation for electoral reform should be in place by the summer recess; but this will have to be complemented by new laws redrawing the constituencies, which could take up to four months to approve. In other words, even if a majority of parliament wishes to hold elections in the autumn, this might be impractical.

At the moment the majority of parliament wants to see the legislature last at least until next spring. This would give the parties time to reorganise, and permit Mr Ciampi sufficient elbow room to get privatisation on course and ensure the public sector deficit is being tackled in earnest. But the *Lombard League and PDS* are adamant in demanding autumn elections, and Mr Ciampi cannot easily survive for another year in the present unpredictable circumstances.

IN THIS SURVEY

Carlo Azeglio Ciampi: from bank governor to premier

Editorial production: Roy Terry
Illustration: Joe Cummings

ITALY 2

After the corruption scandals, **Robert Graham** looks at the new politicians at the top

The old makes way for the new

ITALY'S political class has been decapitated during the past year as a result of the *corruption scandals.*

Foundering with the discredited politicians are the parties they have represented. The long-ruling Christian Democrats have become a shadow of their former self. The 100-year-old Socialist Party risks dismemberment, while the other two government partners, the Social Democrats and Liberals, are in danger of extinction. All four parties have changed their leaders within the past nine months.

The only new force to have established solid roots is the populist Lombard League, which is dominant throughout northern Italy. To a lesser extent The Network (La Rete), the Sicily-based cleansed government movement, also deserves credit for breaking the mould. The Network is a recycled version of the left wing of the Christian Democrat Party. Such recycling is scarcely surprising because a new political class in a democracy inevitably builds on the old.

In this highly fluid situation Italy could either move towards two or three large parties/alliances, or retain the large number of parties which would coalesce on specific issues. In either event commentators agree that it will take probably two more general elections for the political landscape to settle.

At present there appears to be a move towards a greater concentration of regional power, local politics taking precedence over national issues. *Certainly this is the superficial* interpretation of the results of the June municipal elections, which is the most recent gauge of electoral sentiment. The vote went broadly on regional lines: the League took the north consolidating its position as the largest single party by a

Achille Occhetto: municipal elections boosted leadership

Mario Segni: leader of the referendum movement

Umberto Bossi: faces crucial decisions as leader of the League

factor of three to one; the former communists, Party of the Democratic Left (PDS), reaffirmed and increased its control of the Centre of Italy (the old "red belt" in Emilia Romana, Liguria, Le Marche, Tuscany, Umbria and parts of Lazio) while the Christian Democrats remained strong in the south with the neo-fascist MSI also doing well.

But this crude split ignores the way in which the PDS has also improved its position in the south and clung on in the north to remain a significant *national force. The degree of* future regionalism also depends on whether the Christian Democrats can recover their national vote.

The three-way division of the country reflects in broad terms differing political evolution. The rise of the League in northern Italy has been a direct response to a feeling that the traditional parties in *Rome ignored the problems of* the industrial north, using the region's wealth to fund corrupt government in Rome and an inefficient welfare state in the south. Rather than being separatist, or even autonomist, the League represented a kind of northern nationalism, appealing across party lines.

The League has drawn its support as much from industrial workers anxious to protect jobs, as from small businessmen and the professional classes. Within the League, there are overtones of xenophobia both towards the south and towards immigrants, and some of the language of Umberto Bossi, the leader, is vulgar and inflammatory. But the base appears to vote with its feet firmly on the ground, wanting to get value for money from taxes, and be able to con*trol their own regional affairs.*

Having won the mayoralty in Milan and 15 other cities in the north, the League has a chance to prove itself in local administration. But beyond this, Mr Bossi must decide in the future whether the League is a regional movement or a national one. At present it operates as a series of regional federations and formally calls itself the Northern League.

Mr Bossi must also decide whether as a regional force, the League will win more concessions in opposition or by joining the government. Mr Bossi is classified by commentators as being on the right, and it is significant that alone of the parties (save the neo-fascist MSI) the League chose to fight the municipal elections without any alliance.

The League's continued success will determine the fate of the Christian Democrats in the north since it has been mainly at their expense. Significantly, in the north the first genuine attempts to revamp the Christian Democrats are occurring, led by the formidable female politician from the Veneto, Rosy Bindi. In the south, nothing has been done largely because no alternative other *than The Network in Sicily has* appeared.

The Christian Democrats are profoundly demoralised and have yet to come to terms with having lost their position controlling the levers of political power. The old guard – the Andreottis, Gavas, Forlanis, Pomicinos and De Mitas – who ran their factions and behaved like feudal barons, have been damaged beyond repair by the corruption scandals. But they have also done a considerable disservice by refusing to countenance a thorough cleansing of the party.

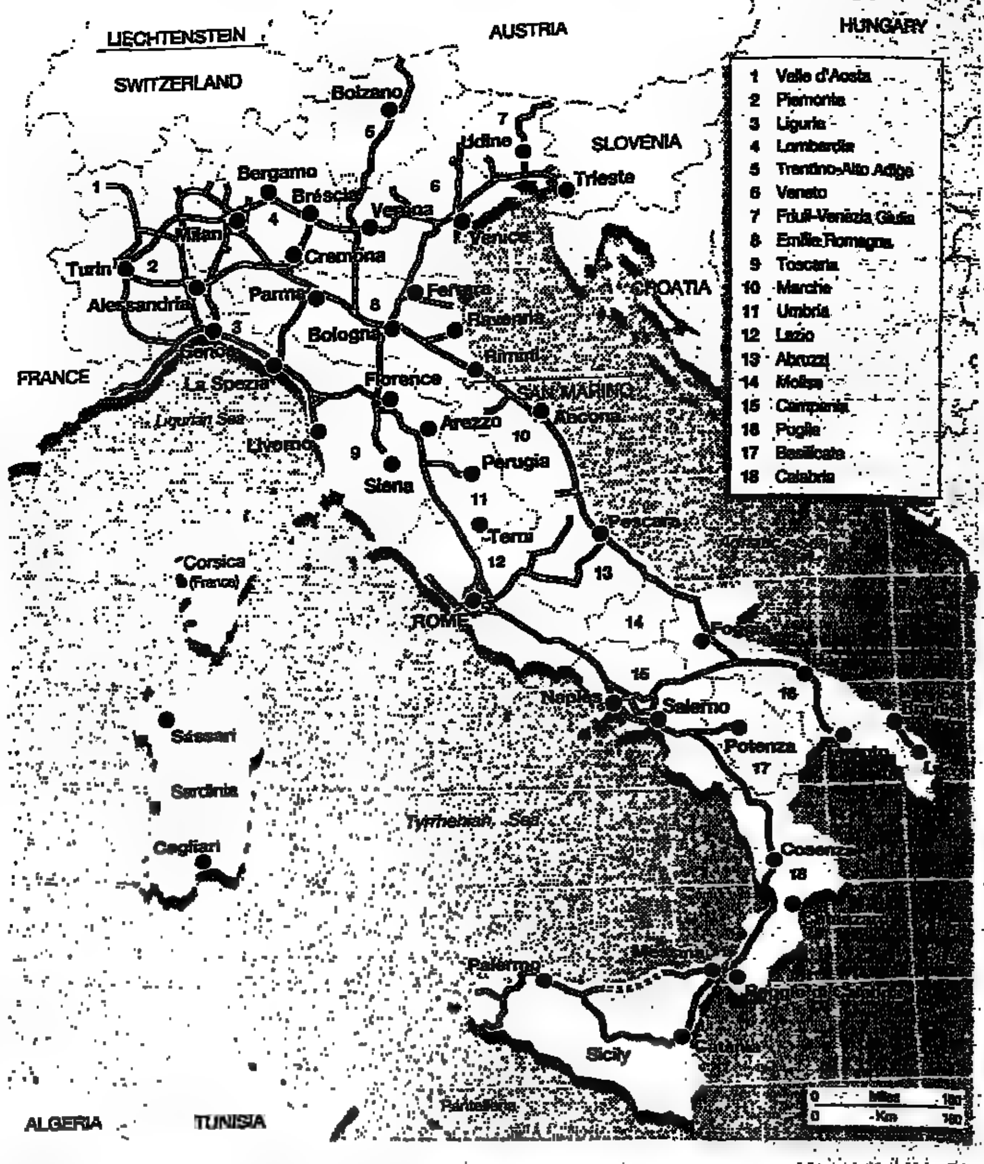
The longer this cleansing is delayed, the more the Christian Democrats risk being unable to halt their decline. The church appears no longer willing to offer unconditional support to the party; yet it is precisely in Catholic values that the Christian Democrats are seeking renewal. Mr Mario Segni, the leader of the referendum movement, decided to leave the party in March. He may yet realise he can achieve more as a reformer inside the party.

The Socialists have been the biggest losers from the corruption scandals – even though they have a mere 39 deputies implicated against the Christian Democrats' 48. This is because so much of the public odium has fallen on Bettino Craxi, who resigned in February from the Socialist leadership. He has come to symbolise the worst aspects of the "partitiocracy" – the control of the state apparatus by the ruling parties.

With such a personalised leadership for more than a decade, Mr Craxi's departure amid a welter of recrimination has left a huge gap. Mr Craxi cleverly spear-headed an anti-communist alliance with the Christian Democrats; with the collapse of the Berlin wall the two partners exposed the two parties' ideological bank*ruptcy.*

The Socialists' future is further clouded by their disastrous financial position. The party has accumulated debts of L214bn, a further L30bn in debts of regional offices and a similar amount accrued by the daily, Avanti. With public funding of political parties banned by the April referendum, the Socialists are pruning staff and selling assets.

Illicit funding of the parties has been the central issue in the corruption scandals. The drying up of this source of money, plus the ending of state subsidies, will have a radical effect on the way parties behave. All bureaucracies will have to be slimmer and the practice of running loss-making daily papers could end.



The PDS was one of the first to make cuts in its organisation. This was forced by the decision to drop the communist label and become social democrats. (As of this year the PDS is part of the Socialist International). The old party split, the bulk forming the PDS and the hardline rump, Reconstituted Communism.

Between them their vote remains remarkably close to 26 per cent enjoyed before their divorce. The PDS accounts for two thirds nationwide but in some northern cities has been overtaken by Reconstituted Communism. The faithfulness of the old communist party vote bears increasingly less relation to ideology. The appeal is a mixture of a sentimental attachment and a belief that this grouping represents an honest alternative.

The PDS suffers from serious internal divisions but Achille Occhetto's leadership has been boosted by the municipal election results which saw PDS and its allies win 73 of the 145 mayoralties. The PDS needs to move away from its mind-set as a party of the opposition. The party's three ministers lasted only 10 hours in the Ciampi cabinet before they were withdrawn in what with hindsight looks like a frivolous protest.

Formally it was in protest at being associated with a government whose partners appeared to back parliament in blocking attempts by the judiciary to make Mr Craxi face corruption charges. However, the Ciampi government itself had nothing to do with the Craxi affair and Mr Occhetto was merely thankful to find an excuse to head off criticism for having let his men join the cabinet.

Robert Graham looks at the sweeping electoral reforms

An experiment in voting

AT THE next election, *Italians will be experi*menting with a new system based on the principle of majority voting but balanced by proportional representation.

The historic change came earlier this month when the chamber of deputies began debating proposals for electoral reform. Ironically, the Italians have decided to reject *their system of proportional* representation, introduced with the post-war constitution, at a time when other European countries are beginning to have doubts about the merits of majority voting.

The Italian argument for electoral change, however, is powerful. Politicians from across the political spectrum have reluctantly come to recognise that the existing system of proportional representation provides too great a guarantee to small parties and encourages fragmentation. In consequence the system has fostered unstable coalitions (the Ciampi government is the 52nd since 1945) yet failed to offer a genuine change of government in elections.

The Christian Democrats have thus ruled throughout the post-war era and relied on four alternating or contemporaneous allies – the Socialists, Social Democrats, Liberals and Republicans. All the latter have enjoyed a degree of power and influence over the institutions of state out of all proportion to their share of the vote.

The pressure for reform has not come from within parliament, as the bulk of the politicians have profited from the existing system. Instead it has come from a small group of reformist politicians using the instrument of a referendum. The first step was the June 1991 referendum endorsing an end to the practice of multi-preference voting – a practice heavily abused to stack the odds in favour of machine-backed politicians.

The fragmentation of the political scene in the wake of the April 4, 1992 general elections brought home the fact that the old system had reached the limits of viability. No fewer than 16 parties were represented in parliament and half had less than six per cent each of the vote, and only one more than 20 per cent. Pushed by President Oscar Luigi Scalfaro, a 60-person joint parliamentary commission was formed in October 1992 to draw up proposals on constitutional reform, with specific reference to new electoral laws.

The existence of this committee, no matter how slowly it moved initially, signalled that parliament was serious after years of indifference. Even so, the pace and agenda of the commission was dictated by the cross-party referendum movement headed by Mr Mario Segni, the then Christian Democrat reformist politician who left the party in March this year.

Once in January the courts gave the go-ahead for a total of 10 referendums to be held in April, a clock was ticking. The commission had to act either to anticipate the referendum or to adhere to the results. One of the referendum proposals was for introducing majority voting in the Senate for 238

> The pressure for reform has not come from within parliament – it has come from a small group of reformist politicians using the instrument of a referendum

of the 315 seats with the remainder retaining proportional representation. Another proposal concerned the abolition of the existing laws regarding the municipal and regional elections.

The commission, deeply divided on the nature of electoral reform, opted to await the outcome of the April 18-20 referendum on reform of the senate.

But in the case of municipal election laws agreement was reached in March on proposals similar to those contained in the referendum. The referendum was thus unnecessary on this issue. The municipal reforms introduced majority voting in all towns with populations over 15,000 and direct elections for mayor, with a second round run-off between the two most voted candidates where none obtained an absolute majority the first time. Voting was also to be held on one day instead of the traditional leisurely two-day schedule for local and national elections.

This system was tested on June 6, with a run-off on June 20, covering a broad cross-section of Italian towns and cities with nearly a quarter of the electorate involved. The reformer's two broad objectives were clearly achieved. The first aim was to shift the voter's attention away from the traditional blind party loyalty and instead chose a specific candidate.

The second was to provide a system that ensured stable local administrations over a four-year period of office – during the course of the past year the administrations in the big four cities of Milan, Naples, Rome and Turin have collapsed because the governing coalitions have disintegrated.

To this end, the winning mayoral candidate has the right to chose 60 per cent of the seats in the municipal council, the remainder being apportioned on the basis of the party's share of the vote. For Italians it was a wholly new experience to see the 145 new mayors declared winners and then promptly have assured stability for their administrations. Normally elections have been pursued by several months of uncertain and unseemly politicking. The impact of the clean-cut results in the new municipal system could well affect the course of electoral reform now being debated in parliament.

Since the reform of the senate referendum triumphed in April, parliament has been obliged to respect the voters' sentiment by producing similar rules for the 630-seat chamber of deputies. Agreement has been reached on a first-past-the-post system for 75 per cent of the seats, with 25 per cent reserved for proportional representation to guarantee minority parties.

An ample majority rejected the idea of a second round run-off in those constituencies where there was no outright winner. They argued the second round risked encouraging a series of local alliances which could not easily be translated into a cohesive parliamentary alliance. The main proponent of copying the French-style run-off was the former communist Party of the Democratic Left (PDS) which calculated it could benefit precisely from such a system. But with all parties so manifestly weak, save the populist Lombard League in the north, the principle of a second round could yet be adopted.

The parties will also have to make up their minds how voters are going to approach the 25 per cent proportional element. If the electorate is encouraged to place one vote for a candidate and a second for a party, this could produce what one commentator called "a vote from both the head and the heart".

The proposals in any event should be ready before the summer recess. The next stage will be the preparation of new laws redefining constituencies – a complex process that could take four months. Nevertheless it is hard to see fresh elections taking place without changes to the constituency legislation. Beyond this, the constitutional reform committee should, if parliament remains in session, address such key issues as whether or not the president, or indeed the prime minister, should be directly elected.

Municipalities have suffered from a trio of ills

Perilous times for big city mayors

FEW JOBS are less enviable than mayor of a big Italian city. Prestige, staff and an office in the most splendid palazzo in town are there aplenty, but occupational hazards include high blood pressure and the risk of an early grave.

Municipal administration has suffered from a growing trio of ills in recent years. Coalitions have engendered *problems in administration;* belt-tightening by the state has caused growing financial difficulties; while law and order has been an increasing concern, notably in the south.

Eroding party allegiances have turned a mayor's job increasingly from chief administrator to umpire between heterogeneous, and sometimes volcanic, coalitions. Like the referee on Italy's fractious football fields, mayoral authority is not always respected, and can often be questioned by all.

The need for urban coalitions stems from the traditional voting system, based on proportional representation. That has traditionally returned a rainbow of parties to council chambers. With one, or even a small group, of parties seldom able to muster a majority, ill-disciplined coalitions have become the norm.

Matters were exacerbated by an institutional system which required even *minor decisions, such as contracts to* cut the grass in parks, to be approved by the full chamber. The system left city administrations as hostages to the whims of coalition members, who might withdraw support unless granted their wishes on some special platform.

Matters should change following this year's introduction of new rules to relieve the paralysis which has afflicted almost every council chamber in Italy's big cities.

The new laws allow for the direct election of mayor, the reduction in size of local assemblies and adoption of a guaranteed majority for the party winning the most votes over a certain trigger level. Together, reformists believe the changes will revolutionise urban politics by reinforcing the mayor, who will also be able to nominate many members of the civic administration independently of political parties.

Direct election means the mayor will be distanced from the party apparatus, theoretically creating a more secure position, in which parties will depend on the mayor rather than vice versa.

Stability should also be improved by making the mayoral term four years, which can *only be terminated* prematurely by a vote by the entire municipal assembly. As that will trigger automatic new elections, it may contribute to greater restraint among trigger-happy councillors ready to bring down an administration if their wishes are not met.

The changes will overturn the way in which big Italian cities have been governed, says Piero Bassetti, chairman of Milan's chamber of commerce and an *unsuccessful candidate* for mayor in this month's elections. "This is bound to foster greater stability".

Giampiero Borghini, the former mayor and another unsuccessful contender this month, is less sanguine. "The impact of the new law will depend very much on the candidates," he says.

Mr Borghini believes a candidate backed by one powerful party, such as the Lombard League, which has won commanding positions in many big towns in Italy's richest region, should have the moral and institutional clout to create strong urban administrations.

But he is less certain that will be the case in towns where the new administration comprises broader coalitions. In such cases, the mayor could still face the traditional problems of inching through the minefield of coalition politics rather than reforming urban government.

If arbitrating between ill-fitting coalitions were not enough, many city mayors also have to grapple with tragic finances. Italy's biggest cities are deeply in debt as spending has increasingly outweighed receipts from central government and local taxes.

The need to boost local revenues has increased as financial constraints on the national budget have led to cuts in direct transfers from the state to local coffers.

Milan's debts now total about L6,000bn compared with an annual income of L3,500bn. That means about one third of council spending goes on debt servicing. In Naples, matters grew so acute earlier this year that the city declared itself bankrupt.

The downturn in central funding has combined with the impact of Italy's corruption scandal to create a new emphasis on accountability and transparency in local government.

A stream of candidates in this month's administrative elections stressed the need for costs and benefits to be evaluated much more carefully than in the past, when the steady flows of cash from Rome led to a much less budget-conscious *approach in local* government. The emphasis now is on saving money.

The change is accompanied by a new stress on "de-politicising" many local government functions following the revelations of the corruption scandal. Investigations in Milan, Rome and Naples have already uncovered countless cases of urban enterprises, such as the energy authority, being used as milk sows by the governing parties.

Reforming municipal finances and cleaning up city administrations featured prominently on the agenda of many local politicians in this month's polls. In Milan, Marco Formentini, the candidate for the Lombard League, went so far as to propose local bonds to finance communal services. The bonds, issued to investors in the city, would improve transparency and indirectly reflect the quality of the services being provided, he claimed.

The bond idea may be politically appealing but impractical. By contrast, local politicians are now regularly emphasising privatisation as a way to raise revenues and cut debts.

Municipally-owned companies play a remarkably big role in the economies of many cities. Big Italian municipalities control a range of services, including fresh milk, pharmacies, energy and transportation.

While some, such as public transport, are usually loss-makers, others are highly profitable. So far, only a handful of big cities have sold their milk operations.

While administration and finance are common themes across the country, law and order tends to split Italy between north and south.

In the rich north and much of the centre, the problem is principally drug abuse and petty crime. In the south, however, the issue of law and order means combatting powerful and entrenched criminal organisations such as Sicily's Cosa Nostra or the Neapolitan Camorra.

Some southern councils have been so severely infiltrated, or even taken over, by criminal organisations that special administrators have had to be imposed by the interior ministry. Combatting crime in the south is a complex problem, as in some cases it requires a cultural change among inhabitants sceptical about the state, cynical about public services and accustomed to a code of silence.

Haig Simonian

After a tough budget, **Robert Graham** analyses the economic slowdown

Hopes for a modest recovery

THE CIAMPI government is hoping the economy will begin to shake off recession in the last quarter of the year, and will witness a modest recovery in 1994. Such an assumption could be optimistic.

With the economies of Italy's main partners sluggish, there are limits on the advantage exporters can exploit from a heavily devalued lira. At home, the climate will be strongly influenced by the continued need for a tough adjustment programme to remain in force throughout 1994 to reduce the public sector deficit to the levels of its EC partners. This year's budget has been one of the toughest in the post-war era, depressing domestic demand and forcing the first drop in private consumption in 40 years.

Growth during the current year is unlikely to be more than 0.3 per cent. This compares with 0.9 per cent in 1991. The economy formally entered recession in the third quarter of 1992. Nevertheless, the slowdown had been in evidence since late 1991.

The extent of the slowdown was masked by the way in which public spending was boosted in the first half of 1992 for electoral reasons. This spending merely delayed the arrival of recession which had already hit Italy's main trading partners. For a while Italians even had the illusion their economy might be able to ride out what promised to a dip in the production cycle.

But such an illusion underestimated the accumulated size of the public sector deficit, which by last year had reached more than 10.5 per cent of GDP. The currency crisis of last September, which savaged Italy's reserves and forced the lira to float outside the European Monetary System (EMS), inculcated a sense of reality among the politicians.

As a result the Amato government was able to force through a tough 1993 budget and an accompanying series of structural reforms. The budget sought to raise L93,000bn in extra revenues and spending cuts to hold the public sector deficit down to L150,000bn. The new fiscal measures included increased property taxes, stamp duties, and a generous tax amnesty to recoup unpaid taxes over the previous five years. The spending cuts covered limiting public sector wages to below inflation and ceilings on local government transfers.

The Amato government also introduced the concept of a "minimum" tax in arguably the first serious attempt to crack down on tax evasion. The finance ministry drew up notional average earnings for specific jobs and then applied tax demands on such a notional base – a move intended to catch especially those in the professions who have been notorious for underdeclaring their incomes.

The other novelty in 1993 budget was the structural reforms which provide for savings in subsequent years on a cumulative basis. These reforms covered changes in the generous system of pensions, a shake-up of the national health, tighter controls over government transfers to the regions and local authorities, and reform of the civil service.

Pensions in particular have come to be a huge burden on the budget. If the system had been left unchanged, the entire budget threatened to be taken up with covering pension payments in under 30 years. The reforms raise gradually the retirement age from 55 to 60 for women and from 60 to 65 for men. Limits are also placed on the size of benefits available to public sector employees.

Growth this year is unlikely to be more than 0.3 per cent

The health system is also in the process of being changed, with hospitals placed under professional management, the greater availability of private medicine, and medicines being no longer free for all on prescription. These changes in the nature of the welfare state should bring significant long-term savings, although on the pensions side future governments may have to introduce even more restrictive legislation.

Public finances should also be helped by allowing greater autonomy to local authorities to raise revenue and to control expenditure. Until this year local authorities simply received transfers from the central government without any sanction for over-spending or premium for good management. Now local authorities will have their central government transfers capped but they will be able to raise a share of property taxes, impose their own car taxes and have at their disposal several other fiscal devices. This, coupled with tight control over new hirings in the civil service, and greater job accountability in the public sector, should provide savings.

Despite these positive attempts to introduce structural change, instead of mere temporary palliatives, the budget deficit remains difficult to control. As a result of the recession the tax take has declined, eroding the chances of sustaining a primary surplus without corrective measures. Recession also puts pressure on the government to expand unemployment benefits or spend on job creation. Already the Ciampi government has been obliged to carry out a mini-budget in mid-May (foreshadowed by its predecessors) raising L12,500bn in new taxes and spending cuts. The mini-budget is still being discussed and could undergo some modification – although the overall amount to be raised will not be changed.

The public sector deficit should thus be held down to L155,000bn, in line with promises made to the EC earlier in the year when an ECU8bn loan was contracted. But the government will have to find a further L45,000bn or more in the 1994 budget. Only with such a continued adjustment can spending be controlled and the deficit gradually rolled back towards the 1994 target of 8.4 per cent of GDP.

If interest rates can be reduced, the pressure will be further alleviated. At present interest on the debt is almost equivalent to the budget deficit; while the debt itself is more than 104 per cent of GDP, well above the 60 per cent ceiling set in the Maastricht Treaty criteria. Each one percentage point movement in interest rates adds or detracts more than L13,000bn in a full year to debt service.

Following Italy's exit from the EMS in September last year, the Bank of Italy has been able to steadily reduce the discount rate. From the September crisis high of 15 per cent, it was down to 10 per cent by mid-June, and commercial rates have also fallen accordingly. However, real rates remain high in European terms since inflation is running at just over 4 per cent on an annual basis. The authorities are still caught in the dilemma of having to retain interest rates attractively high to encourage purchasers of treasury bills which finance the huge debt.

So far inflation appears to have been kept under control. The heavy devaluation against the dollar and D-Mark, the main traded currencies, occurred at a time of depressed domestic demand and importers have kept prices down. But it is questionable how long the economy can remain immune from the effects of a 25 per cent devaluation. Economists predict that year-end inflation could be running at around 5.7 per cent on an annualised basis.

Manufactures have been able to hold prices down because they have cut margins and wage costs have been almost two percentage points below inflation. The latter has been due to a pact between the unions, employers and government last July ending inflation-indexed pay (the so-called scala mobile). The continuance of such a pact will be vital to domestic costs and inflationary pressures as a whole.

The agreement is due to be renewed at the latest by next month. The unions are seeking a limited re-introduction of wage indexation; but in the end they will play job security above wages. Over the past year some 200,000 jobs have been lost in industry and unemployment as a whole has risen to more than 10.5 per cent of the workforce. This understates the picture since a large number of workers in industry are covered by temporary lay-off schemes, funded mainly by the government. As these schemes exhaust their two-year statutory limits, the jobless could rise to more than 12 per cent by 1994.

The bright spot in the economy has undoubtedly been the devaluation induced surge in exports. Italian industry has been able to compensate at least in part for declining domestic demand through an aggressive export performance. Overall exports are expected to increase by 7 per cent in real terms this year, perhaps more; while imports are projected to decline by 1.5 per cent.

KEY FACTS

Area	294,060 sq km
Population	58m (1992 estimate)
Head of state	President Oscar Luigi Scalfaro
Currency	Lira (L)
Average exchange rate	1991 $1 = L1,240.6; 1992 $1 = L1,232; 21/6/93 $1 = L1,529.6

ECONOMY	1992	Latest*
Total GDP ($bn)	1,231	n.a.
Real GDP growth (%)	0.9	-0.3
GDP per capita ($)	21,226	n.a.
Components of GDP (%)		
Private consumption	63.1	
Total investment	19.4	
Government consumption	17.7	n.a.
Exports	18.1	
Imports	-18.3	
Agriculture as % of GDP	4.1	n.a.
Consumer prices (% change pa)	5.3	4.0
Ind wage rates (% change pa)	5.4	2.6
Ind production (% change pa)	-1.6	-3.4
Unemployment (% of lab force)	10.3	10.4
Gross public debt as % of GDP	106.8	112.2
Narrow money growth (% pa)	8.8	1.9
Broad money growth (% pa)	7.5	5.7
3 month money rate (% pa)	13.9	10.0
10 year bond yield (% pa)	13.3	11.5
Milan stock mkt index (% change over year)	-12.1	+17.8
Current account balance ($bn)	-25.4	
Exports ($bn)	178.1	n.a.
Imports ($bn)	188.3	
Trade balance ($bn)	-10.3	
Main trading partners (1991, % by value)	Exports	Imports
Germany	21.0	20.9
France	15.2	14.2
US	6.9	5.6
UK	6.7	5.7
EC	59.0	57.7

* GDP growth – Q4 1992; wages, industrial production, unemployment rate, money growth – April 1993; CPI – May 1993; interest rates – 21/6/93; stock market – percentage change 1/1/93 to 21/6/93; public debt – Eurostat 1993 forecast

Source: IMF, Datastream, Economist Intelligence Unit, Eurostat

Haig Simonian monitors the ambitious privatisation programme

Progress at a snail's pace

ALMOST 10 months ago, Italy's government surprised the stock market, foreign multinationals and many of its supporters by announcing an ambitious privatisation programme for the next three years.

Since then, Bonn has put forward plans to sell off state assets, London is going ahead with the disposal of the remaining stake in British Telecom, while the new French government has knocked the wind out of investors with the speed and scope of its privatisation plans.

Italy, in the meantime, has appeared to stand still. The same companies are still for sale; timetables, which looked ambitious to begin with, are regularly repeated but never revised; only ministers' faces have changed. What has gone wrong?

The delays involve party politics, economic fundamentals, and just plain donkey work. The upshot is that, although some deals are approaching conclusion, many more are barely on the starting line.

However, the impression of inactivity masks some genuine progress. The previous government of prime minister Giuliano Amato, which set the privatisation ball rolling, made a start on overcoming many of the toughest, but least visible, obstacles to disposals.

Foremost among them was political consensus. While the need to sell assets to bring down the budget deficit was widely accepted in the government and ministers were broadly agreed that privatisation was one instrument in going about it, consensus ended there.

Opposition to disposals took two forms – the second sometimes masquerading as the first. Some ministers, notably Mr Giuseppe Guarino, who held the key industry portfolio, argued privatisation should be prepared in the context of a broader "industrial policy" for the state.

Some companies on the privatisation list, such as Finmeccanica, the engineering arm of the IRI state holding company, have huge investment programmes entailing long lags before profits start to show. The risk of privatisation, according to the critics, was that essential, but potentially unattractive, long-term investments or research projects, vital to keeping Italy abreast in the high-technology race, might be pruned by new private-sector owners. Rather than pushing ahead with piecemeal privatisations, they argued the government should first work out a list of strategic priorities.

The second barrier to sell-offs was much more self-centred. State-sector companies have been important sources of political patronage for decades. Their boards have been stacked with political placement. As the corruption scandal shows, some were also crucial milk cows for the political parties. Such territory is not easily relinquished by politicians accustomed to treating the symbiosis between parties and state enterprises as a fact of political life.

Mr Amato also had to overcome organisational difficulties. Big privatisations require months of groundwork by lawyers, bankers and accountants. Some laws also had to be changed to eliminate monopolies and alter tariff structures. And the legal status of the biggest public-sector concerns also had to be amended.

Hence the privatisation of IRI, Eni (energy and chemicals), Ina (insurance) or Enel (electricity generating) could not advance until all were transformed into joint stock companies, producing normal balance sheets and with an arm's-length relationship to the state.

The completion of much of the groundwork by Mr Amato and the presence of a more homogeneous team of ministers under Mr Cimapi means disposals should now gather speed. Few doubt Mr Ciampi's determination, unequivocably expressed in speeches on cutting the deficit during his term as central bank governor.

Political opposition has also diminished as many MPs have become discredited by the corruption scandals. Meanwhile, pro-privatisation parties, such as the Northern Leagues, have been gathering strength.

The process has also been helped by the progressive "depoliticisation" of the big state companies, reducing internal resistance. Boards of directors have been slimmed down for faster decision-making. Revelations about the payment of kickbacks has made the management renewal process faster and less painful than expected.

Most of the delays are now market-related rather than political. Recession has eroded the number of buyers for many assets. Mr Franco Bernabe, Eni's managing director, has recognised disposals are likely to be easiest when limited to small companies or plants, rather than wholesale divisions. As a result, leading newspapers have been peppered with modest advertisements, rather than full-page blockbusters, offering individual Eni units for sale.

Falling earnings have also dulled the attractions of many big state-owned banks and companies. Italy's financial institutions, once avidly courted by big foreign banks wanting to expand abroad, have lost much of their lustre now that profits are down.

Changing corporate priorities have not helped. The focus among banks on cross-border financial services in the run-up to the European Community's 1992 liberalisation prompted a scramble to buy financial services companies in neighbouring countries. Little was for sale in Italy at the time. Now the supply has increased, but demand has withered as bankers have realised managing financial services abroad is no easy matter.

Luck also plays a part. Some disposals, such as the treasury's stake in the Crediop long-term lending agency to the San Paolo banking group, went through smoothly before Mr Amato came to power.

By contrast, talks to sell the treasury-controlled IMI financial services group to a pool of big city savings banks fell through this month, nearly three years after first being mooted. The sale of the banks, led by Milan's Cariplo, was forecast to raise about L3,500bn. Now, plans for IMI will have to be revised, with the treasury envisaging a flotation instead.

To cap it all, Italian business remains overshadowed by the corruption scandal. Many foreign buyers are keenly aware of the prospects in retailing or insurance. But most are hanging back until the corruption scandal dies down.

Domestic constraints must also be tackled for privatisation to proceed smoothly. The Milan stock market remains relatively small and illiquid, despite recent financial reforms. The lack of potential domestic investors has made ministers, fearing a flop, wary of big flotations for the first, pace-setting privatisations.

Both the Amato and Ciampi governments must take some of the blame for not doing more to develop the bourse as part of the overall privatisation process.

Most recently, the government approved a proposal by the Bank of Italy to allow banks to buy up to 15 per cent of the shares of industrial companies in an important revision of the outdated 1936 banking law. Although easing the privatisation process was not the main motive, letting banks buy into public-sector companies due to be sold was undoubtedly an influence on policy-makers.

For its critics, however, the proposal represented nothing more than a veiled "nationalisation". The banking system is dominated by public-sector institutions, which may end up taking significant stakes in state-owned companies now being "privatised". Such an approach was understandably derided by those calling for a "true" privatisation policy.

In fact, the main reason for the reform was to ease debt problems among private-sector companies suffering in the recession. But given the apparently snail's pace of Italy's privatisation programme, the cynical reaction was not altogether surprising.

Main privatisation candidates

Company	Activity	Value of state's stake	State of deal
Italgel and Cirio, Bertolli, De Rica	frozen foods and canned foods	L1,200bn (combined)	Successful bids due to be announced shortly
GS/Autogrill	food retailing/catering	L2,000bn	Offers to take stakes published
Credito Italiano	banking	L6,000bn	Consortium of potential investors being sounded out
Nuovo Pignone	engineering	L500bn	Potential trader buyers being sounded out
Agip	oil and gas	Not available	Flotation of opening 10-20 per cent tranche expected by year end
IMI	banking	L1,600bn	Flotation of opening 20 per cent tranche expected by year end.
Ina	insurance	Not available	Flotation of opening tranche expected by year end
SIV	glass	Not available	Announcement of acquirer expected soon.
Banca Commerciale Italiana	banking	Not available	Sale of public stake announced but timing unclear
Snam	gas distribution	Not available	Flotation of opening 10-20 per cent stake announced but timing unclear
Enel	electricity generation	Not available	Legal monopoly and tariff structure to be reformed to prepare for sale. Timing unclear

AGRICULTURE

Voters call for a new administration

ITALIANS enjoy a privilege offered to few electorates; the power to abolish government departments. And they exercised it in April when the score from the referendum ballot box was a resounding 3-0 against the ministries.

The ministry of agriculture was one of the losers, some 54 per cent of the electorate voting that it should be closed. In a turnout of 77 per cent, 70 per cent voted that the ministry's powers should pass to Italy's regional authorities.

The referendum campaign was led by the regional authorities of the Alto Adige, Piedmont, Lombardy, the Trentino, the Veneto, Emilia Romagna, Tuscany, the Marches, Umbria and Basilicata. (With the exception of Basilicata, all are wealthy northern or central regions.) The opposition line-up included all the main farmers' and agricultural organisations.

Immediate closure of the ministry would be difficult, and the government has been able to delay implementation of the electorate's verdict until August 4. In the meantime, an effort is being made to establish a new framework for administering agriculture. "We are working towards the creation of a new ministry which will be the ministry of agricultural, food and forestry resources," states Alfredo Diana, the minister of agriculture.

In setting up a new organisation that bows to the will expressed by the electorate in April, the government is having to perform a delicate philological and constitutional balancing act.

"Though the timescale is short, the deadline is absolutely inflexible," says Mr Diana. "Draft legislation has been prepared and is now being discussed. The main issue is to decide which activities should be transferred to the regions." He believes that the responsibility of the state is essentially that of planning and co-ordinating policy for the sector.

"Land improvements and reclamation ought to pass to the regional authorities. Responsibility for co-operation should be centred on the regions, and so also should interest rate assistance. A large part of activity will be decentralised. I envisage that the regions will have the task of managing agricultural policy," says Mr Diana.

One certainty is that Italy will not be represented in EC negotiations by 20 regional agricultural assessors. Eurocrats and Italy's community partners will not be treated to a Babel of Italian regional dialects or heated Latin demonstrations of differences on policy and how agricultural funds should be divided.

"There will be no change in our presence in Brussels," says Mr Diana, noting that national responsibilities are indicated by the Treaty of Rome. He points out that federal administrative structures in Germany and Belgium do not prevent single national representation in EC discussions.

"The responsibility of overseeing the application of EC policy definitely belongs to the state. The agreement that we recently reached on milk quotas is conditional on control being exercised by the state. The 173,000 registered letters to Italian milk producers dealing with quotas were from AIMA, a ministry agency. Almost 700,000 sowing declarations are being handled by the ministry, as the body responsible towards the EC."

At least 30 per cent of the ministry's 3,200 jobs will go in the shake-up. Mr Diana admits that there will problems, but believes that the changes can be achieved without trauma. Employment security is not at risk. Nobody will be fired.

Though amalgamation of departments generally leads to fewer jobs, it is hard to believe that Mr Diana's ideas for bringing the ministry's 23 research institutions under one roof will not lead to job creation. And the state agency for market intervention, AIMA, ought to offer openings to some of the civil servants whose jobs at the ministry will disappear. "It is absolutely necessary that AIMA should establish an inspection service, and this will require staffing."

Another source of new jobs will be in the food sector, if Mr Diana's plans for re-defining the ministry's fields of competence are extended in this direction. "The food industry would welcome closer links with agriculture. The new ministry ought to cover food as well as agriculture," he says, foreseeing the acquisition of new and different responsibilities.

The position of the Corpo Forestale di Stato, Italy's 7,000-strong force of forest rangers, is also under discussion. Mr Diana believes that the nature of its work, which includes fire-fighting and protection of national parks, is such that it should pass to the environment ministry. "But some members want to keep police status and would prefer that the Corpo Forestale should be part of the internal affairs ministry." Mr Diana dismisses the idea that the Corpo Forestale's job could be devolved to the regions.

Italy's minister of agriculture and his staff are clearly more than usually busy. Although heavily engaged in discussions on transferring responsibilities to the regional authorities and transforming the central organisation, the ministry has continued its efforts to put Italy's case in international forums. In mid-June Italy presented two position statements; to the council of agricultural ministers, one on the Uruguay Round and the other on Common Agricultural Policy reform.

Mr Diana emphasises Italy's objective of obtaining Gatt agreement as soon as possible. He is concerned, however, that the Blair House agreement risks affecting some sectors adversely. Mediterranean products such as wine, olive oil and fruit and vegetables are an area where Italy seeks a favourable response before accepting Blair House. "They have never been a source of contention on international markets, and external protection and internal support have declined to negligible levels," says Mr Diana.

Closer to home, Italy has concerns about CAP reform, complaining about complex mechanisms and the consequences of errors and omissions by farmers. "The experience of applying the reform has shown the need for significant changes in the system, from both an organisational and regulatory point of view," says Mr Diana. But given Italy's record in terms of CAP fraud, it is hard to see EC partners accepting an easing of regulatory constraints where these help combat fraudsters.

Mr Diana complains about quotas and that Italy is being put in a straitjacket. "Only countries that have already reached satisfactory production levels find quotas acceptable. Italian farmers are reluctant to submit weakly to measures that bestow advantages to agriculture in northern EC member states."

The farming lobby in Italy is numerically strong. Latest statistics show 3m farms and an agricultural workforce of 2.1m. But the problem of small-scale farming has not been solved by co-operation. "Perhaps too much emphasis has been given to this form of activity. Lack of funds would prevent such support today," says Mr Diana, noting that this will soon be a regional responsibility.

He considers that the collapse of Federconsorzi, an event two years ago that laid open malpractice and maladministration and created much discontent among foreign bank creditors, is a loss to the agricultural sector. "It was very useful to small farmers for storage and the sale of products," says Mr Diana.

In addition to fragmentation, Italian agriculture is characterised by substantial regional differences. Farmers in the north are closer to their counterparts in north European countries, technologically, culturally, economically and geographically, than to fellow Italian farmers in the south.

David Lane

Corruption has been unearthed on a truly vast scale, writes Robert Graham

Pride of a nation damaged by tagenti

THE WORD *tagentopoli* has become deeply embedded in the national consciousness in a remarkably short time.

Tagenti are bribes, and when the corruption scandals first began to break in Milan 16 months ago the city was dubbed *tagentopolis*. But as the scandals spread throughout Italy, the polis turned plural to *tagentopoli*. The expression is now short-hand both for the investigations into corruption as well as the system of corruption itself.

Corruption has been unearthed on a truly vast scale. Without exaggeration virtually every institution of state is either implicated or risks being implicated. Few public figures are untainted. In Milan alone 800 persons have been caught up in the investigations and 111 have already passed through the courts. More than 105 members of parliament are directly affected and risk incrimination.

The pride of Italian industry has been dragged in, damaging the image of private groups such as Fiat and Olivetti or state companies such as IRI, the main holding company, Eni, the oil concern, and Enel, the electricity authority. Bribes are revealed to have been paid on anything from minor pharmaceutical supply contracts to theatres, railway carriages, power stations, football stadiums and waste treatment plants.

The total amount of money involved has been estimated at L5,000bn a year. But this is merely a guestimate by analysts examining the size of public sector contracts awarded annually and then factoring in revelations on the percentages demanded by the politicians and their henchmen. Contracts in the telecommunications sector involved 2 per cent of the total value. Power station contracts carried percentages of up to 3 per cent.

But it is now clear the combination of contractors paying bribes and the authorities accepting rigged bids added considerably to public expenditure. From the late Eighties the majority of projects were costing between 15 and 20 per cent more than was necessary. Indeed, this month in Milan a municipal construction tender was bid 50 per cent below the rate prevailing before the corruption scandals broke in February 1992.

Overall, according to the calculations of one research institute, the elaborate system of bribes was latterly costing the country L15,000bn a year in extra expenditure and the extra cost of borrowing to cover the spending. Such figures may overstate the cost, but they nevertheless convey a sense of the scale of corruption and the extent to which it came to burden the economy. It is also abundantly clear that during the Eighties corruption became systematic. The main political parties placed their trusted "collectors" or executives throughout the state apparatus to ensure that funds were diverted to their coffers – and towards their own pockets. The degree of personal enrichment has been substantial.

Those who have confessed to taking bribes freely concede that as much as 60 per cent of all monies collected ended up in the bank accounts of individuals. Perhaps it is no accident that all the main parties *have serious deficits*. The worst deficit is that of the Socialists, regarded as the most avaricious, with a staggering L214bn plus a further L30bn outstanding in local sections. If the money had been channelled solely to the party, the deficit could never have been so high.

The funds illicitly obtained in the name of the main political parties have come in several different forms. Normally businessmen have handed over money to the politicians and their bagman in return for winning contracts in the public sector. These contracts have been awarded by state agencies such as Anas, the roads authority, utilities such as Enel or by municipal authorities in such spheres as transport, health and waste treatment.

Alternatively, state companies have been deliberately "milked". Their political masters obliged these companies to make contributions. Usually this was through foreign operations. The most significant case has been the illicit funding by Eni, the state oil concern and its subsidiaries. Last month Saipem, Eni's pipeline subsidiary, revealed that since 1987 it had paid out L225bn in bribes and commis*sions to Italian and foreign* intermediaries, most of this via a friendly Swiss banking institution. Contributions have also been made in the form of indirect transfers such as support for politicians' pet projects, political meetings and advertising campaigns.

There are also instances of *deliberate agreements between* the politicians, local authorities, the public administration and companies to defraud the exchequer. This has especially been the case in southern Italy. Here the most flagrant example has been the misuse of the huge sums of money available for reconstruction after the *1980 Irpinia earthquake near* Naples. Other instances include the construction programme for the 1990 World Cup football competition and deals to inflate expenditure or carry out unnecessary projects.

The practice of concert party deals between politicians, businessmen and officials agreeing to defraud the state has arguably been the most damaging aspect of the corruption scandals on the public accounts. But equally, there have been cases of one public company agreeing to pay a bribe to *another to obtain a contract*, while the illicit monies are shared among the politicians.

The share-out has usually been on the basis of the party's proportion of the national vote or their respective weight inside the government. Minor coalition partners such as the Liberals and Social Democrats obtained illicit finance wholly disproportionate to their share of the vote simply because they were in government. But the lion's share has gone to the Christian Democrats and the Socialists, the dominant coalition parties. The opposition, too, in the form of the old Communist Party and its successor the Party of the Democratic Left(PDS), was frequently co-opted, normally by a deal to offer a proportion of contracts to their co-operatives.

The inquiries have acquired a momentum of their own as the magistrates establish interlocking threads and the exploit of the system of plea bargaining. Basically people are arrested and imprisoned until they accept to talk. The information thus gathered has been selectively released by the magistrates breaking most norms of justice intended to protect an individual's innocence.

Nevertheless, this practice has achieved its aim of discrediting the political establishment which proceeded to occupy and rape the state for its own selfish needs in the post-war era. It has also unmasked the mechanics of corruption which cannot easily *be reproduced on the same* scale in the short or even medium term. Arguably such objectives lay behind the Milan magistrates' drive to uproot corruption in the city.

The investigative phase of *tagentopoli* will soon play second fiddle to other issues as the process moves towards the courts. For instance, is the judicial system equipped to cope with trying so many people? Is it realistic to consider an amnesty as the practices unmasked relate essentially to a vanishing political system?

A case can take up to 10 years to complete its slow path through the full array of courts. Equally, such is the morass of contradictory legislation that the prosecution fails in 75 per cent of all cases. Simplified procedures may well be introduced to despatch the cases of those who have pleaded guilty and have agreed to co-operate with justice. But with the politicians who are contesting charges, especially *the serious one of extortion* (i.e. forcing businessmen to pay bribes against the threat of not obtaining contracts), quick trials are not proving so easy to contemplate.

MAIN CORRUPTION INVESTIGATIONS

Roads. *Anas, the state roads authority – contract rigging, over-pricing and illicit party funding.*
Power station. Enel, the state electricity authority – permitting percentage on power station contracts to fund parties.
Ministry of Posts. *Contract rigging and pay-offs on telecom* investments, bribes on distribution of TV channels/licences.
Eni. State oil concern and main subsidiaries investigated for illicit financing of parties through transfers from overseas operations.
Aerospace. Creation of state group Alenia in 1990, airports authorities and Alitalia leasing operations.
Enimont. Irregularities in the reorganisation of the petrochemicals industry in 1990 through ENI's purchase of Montedison's 40 per cent stake in Enimont.
Railways. Supply of rolling stock and arrangements behind the high-speed rail programme.
1990 World Cup. Contracts in main cities hosting the football competition.
Colombus 92. Irregularities in Genoa centenary exhibition/ reconstruction programme.
Irpinia earthquake. Abuses and fraud in huge reconstruction programme for the 1980 earthquake.
Overseas aid. Misuse of overseas aid programmes in developing countries as well as Argentina.
Sace. Misuse of guarantees in state-run export credit guarantee agency.

ORGANISED CRIME

Moves on Mafia may be costly

ITALIAN authorities have, in the past 12 months, registered an unprecedented series of successes against the Mafia. Unprecedented because, in spite of countless ritual declarations of war by successive Italian governments, no real offensive against Cosa Nostra had ever before been launched.

If the war against the Mafia is now being fought in fact *and not just in words, there* are two main reasons. One is the upsurge in popular feeling following the assassinations of judges Giovanni Falcone and Paolo Borsellino last summer. The other is the eclipse – in part the consequence of elections, in part that of *tangentopoli* (corruption) – of the oligarchy that has held power in Italy since the war.

The arrest this year of Toto Riina, head of Cosa Nostra, the umbrella organisation of the Sicilian Mafia, of Benedetto (Nitto) Santapaola, second in command, and the fact that dozens of other *pezzi da novanta* are now behind bars, are all clear evidence of the profound change that has taken place.

It would have been unthinkable and in effect impossible a year ago. Riina and Santapaola, the two most wanted men in Italy, had, for more than a decade, been leading outwardly normal lives close to their homes. Only powerful political protection could have enabled them to do so.

> Today, most of the Mafia's most fearsome bosses are behind bars

Former premier Senator Giulio Andreotti, and former interior minister Antonio Gava, are under investigation for collusion with the *Mafia* and the Neapolitan Camorra respectively. Whether or not these two men face charges is, of course, up to the prosecutors.

What is clear, however, is that the growth of organised crime in Italy to the point where it effectively controlled the governments of four of the country's regions, holding sway over the lives of 12m people in southern Italy – and the simultaneous spread of the Mafia's tentacles over large sectors of the national economy – would not have been possible without political connivance.

The story of how this "unholy alliance" operated largely remains to be told, but the outlines are already apparent. It will tell of a super *tangentopolis* involving not only corrupt politicians and businessmen but, in addition, Mafiosi, Freemasons and spies.

Over the past 30 years, the Italian government has channeled L200,000bn to promote the development of the country's backward south. How far, if at all, this objective has in fact been achieved is a matter of some controversy. It is estimated, however, that some 15 per cent of this has gone into the *Mafia's pockets*. Says Pino Arlacchi, professor of sociology at Florence university and one of the country's leading experts on organised crime: "Italy's are the only criminal organisations in the world to be largely financed by the government."

The March 12, 1992, shooting of Salvo Lima, a prominent Sicilian Christian Democrat close to Andreotti, signalled the breakdown of the shadowy links between politicians and Mafiosi which grew up during the cold war. According to Mafia justice collaborators the murder was retribution for the politicians' failure to honour a promise that the supreme court would quash a series of convictions against the bosses in the so-called maxitrial of more than 700 Mafiosi.

This might have been feasible in the past – Italy's supreme court was, at one *point, almost routinely revers*ing anti-Mafia verdicts issued at assizes and appeals level. But, with the wind of change already blowing strong, there was no way it could be done in January last year.

The murders of Falcone and Borsellino followed, and, then the war that should have been fought 20 years ago began in earnest. In the past 18 months, police have arrested 5,793 Mafiosi, including 70 ranking bosses. Availing themselves of new laws on the seizure of assets, the authorities have confiscated more than L4,500bn in property, bonds and cash. The governing councils of more than 60 Italian towns have been disbanded after being found heavily infiltrated by the Mafia.

Today, most of the Mafia's most fearsome bosses are behind bars, as are the leaders of the Camorra and the Calabrian 'n'dranghetа.

But the recent car bombs in Rome and Florence have also shown – as intended – that it still retains a dangerous capacity to plan and organise terrorist-style operations.

With 17,000 "regulars" each of them flanked by roughly 30 sympathisers or accomplices, the Mafia is a highly diversified organisation which can count on a nationwide workforce of roughly 500,000 people. It will, according to Luciano Violante, chairman of Italy's standing parliamentary committee on the Mafia, take another six to seven years before it can be completely destroyed.

Moreover, the Mafia's very considerable financial and economic interests have, in spite of the seizure of billions of lira's worth of assets, remained largely intact. According to the Italian National Statistics institute, organised crime in this country grosses some L26,000 bn a year, which would make it Italy's fifth largest corporation.

Just how much of the Mafia's illicit profits are invested in legal activities is a matter of debate, especially as the dividing line between investments and laundering or recycling is blurred. However, according to Colonel Francesco Petracca, of the Guardia di Finanza, 60 per cent of the Mafia's investments go into the financial sector, 17 per cent into real estate, 11 per cent into the retail trade and 4 per cent into industry.

Despite the introduction of a series of safeguards against recycling, the Italian banking system is still regarded as wide open to Mafia money.

Treasury bonds merit a chapter apart. According to Franco Piro, former chairman of the parliamentary committee on finance, Mafiosi may be buying some L10,000bn of government paper every year, significantly helping to finance government spending and shore up the national debt.

All this poses an interesting question. The Italian government finally seems determined to eliminate the Mafia. But can it really afford to?

Christopher Matthews

David Lane examines the unpopular health service reforms

More patience for patients

ALTHOUGH Italians are accustomed to daily trials with officialdom, many have nevertheless been surprised by the extra hurdles the health service reform requires them to leap. The De Lorenzo decree, introduced at the end of last year, sets new bench marks for testing patience, stamina and cunning.

Thoroughly disliked by the public, Mr De Lorenzo's decree has been given short shrift by the medical profession. "Chaotic and stupid," says Mr Benito Meledandri, vice-president of the Federazione Nazionale degli Ordini dei Medici (the national medical association). Words of condemnation were usually stronger among the long queues that formed earlier this year at local health authorities for "bollini" (coupons) giving entitlement to free medicines.

Next month and the following month, about 15m Italians will face another endurance test devised by former health minister Francesco De Lorenzo. Until now Italians have been entitled to free access to family doctors. The De Lorenzo decree has introduced an annual charge of L85,000 a person, payable by individuals with income of more than L30m, couples with family income of more than L42m and three-person families with income above L50m. (The income threshold rises by L5m for every additional family member.)

The method of payment of the tax on general practitioner (GP) services will probably cause as much complaint as the charge itself. Italy's creaking bureaucracy is unable to handle modern payment methods such as cheques, bankers' orders and direct debits. It has to have cash.

Paying the GP tax will mean finding the appropriate giro forms, and there is a fair chance of an acute shortage of them, and facing interminable queues at post office counters to pay cash.

In spite of calls to drop the tax, the government is going ahead. Smart money is on a repeat of the "bollini" fiasco.

The De Lorenzo decree has been given short shrift by doctors

Mr Meledandri says that his association believes that the only way to deal satisfactorily with the question of financing Italy's national health service is through general taxation, particularly direct taxation on income. "We are convinced that those who are fit must pay for those who are sick, and the wealthy must pay for the poor. Indeed this was the line taken in the major reorganisation that took place in 1978.

"The De Lorenzo reform seeks the end of the welfare state. His decree was ideologically based, attempting to abolish public sector health care and replace it by the private sector."

It is not surprising that the PDS (Partito Democratico della Sinistra, the former Communist Party) is also at the barricades. Indeed the doctors and the PDS are two of many organisations that have collected signatures for a referendum to abrogate the De Lorenzo decree. And with 850,000 Italians putting their names to the call for referendum, this will go ahead unless the government makes the appropriate legislative changes.

The De Lorenzo decree is criticised for being conceptually wrong, poor in implementation and out of touch with reality. "We warned that the introduction of bollini would have a knock-on effect, and this has happened," notes Mr Meledandri. Hospitals have experienced a large surge in admissions by Italians who do not have bollini or whose quota has been used. Unable or reluctant to pay for medicines and analyses, people are turning to hospital emergency departments.

Health spending 1992 (Lbn)

	Cost	% of total
Staff	37,752	40.4
Goods and services	16,546	17.7
Prescribed medicines	14,500	15.5
GP service	5,884	6.3
Payments to private hospitals	8,450	9.1
Payments to external specialists	2,616	2.8
Other costs	5,876	8.2
Total	91,624	100.0

Source: Ministry of Budget and Economic Planning Unit

This shift of treatment from GPs' surgeries to hospitals leads to higher costs. Budget minister Luigi Spaventa notes that spending on prescription pharmaceuticals has fallen sharply this year. (They were 25 per cent lower in the first quarter.) But hospital costs have soared.

While hospital treatment for minor ailments or for chronic conditions already being treated by GPs is a misuse of resources, the problem is exacerbated by a generally low level of hospital efficiency. "Patients stay for four or five days when one ought to be enough," remarks Mr Spaventa.

Mr Meledandri admits that there is inefficiency and waste in the health service, blaming this on lack of paramedical staff and insufficient investment. He also admits that the non-medical aspects of hospitals often fall far short of acceptable standards. "Lack of clean bed linen, and inadequate and dirty bathrooms and lavatories are problems. But the patient can rely on the professionalism of medical staff," he says.

However, senior cardiologist Bruno Pilato sees non-medical matters as hampering the work of doctors in hospitals and causing demoralisation. And professionalism has suffered from poor morale. "In clear conflict of interest, doctors have used their positions within the state health service to further their private practices. In addition to bad management, there has been dishonesty. There have been numerous cases of equipment being purchased and never unpacked," says Mr Pilato.

Given the sums of money spent by Italy's state health service, it is not surprising that it has been the target for corrupt businessmen and politicians. "An example of the party political character of healthcare is that hospitals have been built and never opened, or opened many years after construction was completed. Generally delays have been caused by staffing. Secure public sector jobs are central to the patronage system, and reaching agreement on beneficiaries can be time consuming," explains Mr Pilato.

Yet party politics and good health services are not necessarily mutually exclusive. "Public services are generally of high standard in Emilia Romagna, Tuscany and Umbria, Italy's 'red' regions," notes Mr Pilato.

Indeed, the health service in Italy offers sharp contrasts of good and bad, of corrupt and honest, of efficient and inefficient, of caring and uncaring, albeit the negative aspects seem to predominate. Few doubt that reorganisation is urgently needed to boost professionalism, increase efficiency and raise standards overall.

However, few believe that the reorganisation introduced by the De Lorenzo decree meets the needs. The sight of pensioners and the sick condemned to lengthy queues, in which some failed to reach the front and died while waiting, suggested that Mr De Lorenzo had failed.

In spite of opposition, the government is going ahead with the GP tax

"There is no easy solution," remarks Mr Meledandri. He points to the increasing calls on Italy's health services arising from a higher number of elderly people in the population, and also from the opportunities for better treatment that are offered by advances in medicine.

Yet at the same time Italy is having to tackle a critical situation in its public sector finances. There is no scope for open-handedness. On the contrary, austerity requires that spending be kept rigorously in check.

Mr Meledandri considers that more resources should be allocated. "Only 6.5 per cent of GDP is spent on health care in Italy. This is too low," he states. But it is hard to see that such calls for higher spending will be satisfied. Cuts in resources are more likely, together with higher contributions from the public. And in this respect the De Lorenzo decree has shown the way.

There is scope for better value for money, and this must be an objective if Mr De Lorenzo's successor, Maria Pia Garavaglia, wants to avoid the criticism that service cuts and higher charges bring. The reduction of local health authorities from the present number of 640 to about 100 (one per province) may help. "But the risk of political interference still exists in the local health authorities," warns Mr Meledandri.

In preparing her reorganisation, Mrs Garavaglia must try to reconcile conflicting factors, and to allay concerns about a shift in health care from public sector towards private. The debate has been lit by the De Lorenzo decree. "Health is a hot issue," says Mr Spaventa. The coming GP tax will keep the temperature high.

The Uffizi gallery bombing has focused minds on culture, says **Jennifer Grego**

Art becomes more visible

ON June 20, the Uffizi Gallery re-opened its doors, a mere 24 days after a car bomb had severely damaged the western wing of the world's oldest museum. Five people were killed in the explosion. Inevitably, the public imagination was caught by what might have happened if the new form of terrorism had destroyed this priceless collection.

Just as happened after the floods of November 1966, when many of Florence's treasured artworks and books were damaged, volunteers flocked to help. Indeed, efforts to deal with the aftermath were impressive, including not only the dedication of the Uffizi team (150 in all) – with the help of restorers from the famous Florentine laboratory, the Opificio delle Pietre Dure – but also the determination of the Mr Alberto Ronchey, the minister of culture. He insisted the museum be opened, at least in part, at the earliest possible moment.

The ministry of culture is the poorest of all the ministries, receiving a mere 0.02 per cent of the state budget – roughly L1,620bn a year. This is equivalent to the amount spent by the French government on 60 new rooms of the Louvre – FFr6bn. The Louvre also has five times as many paying visitors a year as the Uffizi.

Mr Ronchey has proved one of the most successful appointments of the government formed by Giuliano Amato last June (re-confirmed when Mr Ciampi took over as Prime Minister in April). He has no party affiliations and is not an art expert. In fact he started his career as professor of sociology and economics at Venice University, followed by a long stint in journalism.

As cabinet heads have rolled amid revelations in the long-running bribes scandal, Mr Ronchey's power has increased. The culture ministry has not been immune, however. The last but one incumbent is under investigation over the disappearance of L4bn for "ghost" restoration works.

Tourism is now part of Mr Ronchey's field, the ministry for tourism and sport having been demoted to a department of the prime minister's office after a referendum in April.

The minister has realised the need for public support in his series of struggles with entrenched Italian bureaucracy. But some of his battles seem almost irrelevant in the general state of Italy's art – the attempt to dislodge the Teatro dell'Opera's summer season from the Baths of Caracalla (it is questionable whether people visit the monument or simply go to view the elephants and horses of Aida) and banning rock concerts from the Arena in Verona.

One stroke of genius, however, was his declaration of war on the vast army of museum custodians by demanding that museums and galleries be open to the public seven days a week from 9am to 7pm.

This battle was won at the outset in the Italian press, with the public and tourists. He was mobbed like a pop-star outside the Uffizi on Easter Sunday, as guides pointed him out to their tour groups as "the man who opened up the museums – even on holidays!"

Museum custodians account for 54 per cent of his ministry payroll – the EC average is 28 per cent – and are high on the list of the most hated professional groups in Italy. Loathed and feared by museum directors and the public, they are said to derive pleasure from slamming museum doors in the faces of tourists on once-in-a-lifetime trips.

Last year there were 21.5m visitors to Italy's museums, down by 1m on 1991. The museums which lost out were mainly free entry, which despite being splendid, such as the Villa Farnesina in Rome, have impossible opening hours. The number of paying visitors to museums increased by 500,000.

The ministry of culture is the poorest of all the ministries

The figures are not lost on Mr Ronchey. He plans to make under-18s and over-60s, who get free museum admission, pay something. He is also determined Italian museums begin to offer services which are standard throughout western Europe, such as restaurants, coffee-shops and bookshops. And he has plans to open the door to private companies to run these services.

Mr Ronchey's main objective is for the didactic material to be available on video discs and video casettes, to enable visitors to get a restorer's-eye view of the newly cleaned frescoes in the Sistine Chapel, or the Piero della Francesca in San Francesco at Arezzo.

The proceeds of such projects will help the finances of the larger museums, which are now freer of state controls. Earnings from the smaller museums will go into a central regional fund, to be re-distributed according to need. Enterprising competitors for the tenders, such as Ovidio Jacorossi of Artemesia, are offering package deals to include air-conditioning, security and restaurant services. The latter have already been provided for Rome's newest and most comfortable exhibition space – the huge neo-classical Palazzo Degli Esposizioni.

Mr Ronchey's latest battle is the fiercest, most important and maybe the one most in danger of being lost. The military has refused to dislodge their Officer's club from Palazzo Barberini, designated by the Italian government in 1949 as the Galleria Nazionale d'Arte Antica (to hold 12th to 18th century Italian art). The officers have used this now slightly decaying billet in central Rome since 1934, giving over part of a single floor to one of the finest art collections in the world.

The gallery is composed of donations from the grand old Italian families, such as the Corsinis and the Odescalchis, and includes Raphael's 'La Fornarina', and several Caravaggios, Lorenzo Lottos and Filippo Lippis. Only 300 pieces of the 1,500-strong collection can be displayed at any one time, which the majority languishing in store-rooms.

Mr Ronchey, in his attempts to encourage the military to move out of the Palazzo Barberini, issued a decree on April 21 to enable a pre-emptive purchase of the handsome, turn-of-the-century villa on the Nomentana (just outside the city walls), which was being sold by the state. L28bn was rapidly raised from the finance ministry, and the defence ministry agreed to pay restoration costs.

Mr Ronchey had hoped to save this architectural treasure from speculators and free Palazzo Barberini for the National Gallery. Too simple. The decree, guaranteeing that the finance ministry put up the money for the villa, lapsed in mid-June, and although there is a 60-day prorogue the outcome is in doubt – unless, as Mr Ronchey hopes, now, there is a public outcry. A second decree has been issued, giving Mr Ronchey until August 21 to persuade the military to accept his offer.

Some of Italy's long-hidden treasures will, however, be reappearing shortly. On July 2 the newly-restored Palazzo Massimo opens to the public and Roman statues and reliefs long hidden in the cellars at the Museum of Roman Art at the Baths of Diocletion will at last be visible. The third section of the Museum of Roman Art, based at Palazzo Altemps near Piazza Navona, will open next summer.

It will house the fine groups of classical statues collected by the Roman aristocrats in the 16th and 17th centuries, such as the magnificent 97-piece Ludovisi collection.

Such efforts to make art more visible and the recent cleaning and restoration work on a cluster of Rome's finest baroque churches, should make the city a pleasure to visit.

Now media ownership is being investigated, says **Haig Simonian**

Searching look at monopolies

JUST as some Milanese journalists thought the corruption scandal might be dying down, a new line of inquiry has emerged to keep judges and the press occupied.

This time, the magistrates eyes have focused on the media. In an unexpected twist, investigations on the allocation of valuable television broadcasting frequencies have presented magistrates with a fruitful line of inquiry.

This issue has rekindled interest in the whole question of press and media ownership in Italy. In few other countries is the press so closely attached to big business and the relationship so slavishly reflected in editorial policy.

Until last year, Italian law posed few limits on ownership of newspapers, magazines and even broadcasting, allowing a free-for-all with few parallels in the developed world. Though restrictions have now been imposed, they are relatively loose compared with other European countries.

Proprietorial interference is regularly denied by all media sectors, in spite of most leading newspapers and news magazines invariably reflecting their owners' opinions. Arch-rivals Carlo De Benedetti and Silvio Berlusconi recently have been using their publications for a long-distance slanging match. Born out of differing views on the economy, it has developed into a tit-for-tat campaign of "revelations" about alleged involvements in the corruption scandal.

The battle has encouraged a form of investigative journalism not common in Italy by pitching talented editorial teams against each other. La Repubblica, the De Benedetti-controlled daily, is the best source of information on alleged misdemeanours of Mr Berlusconi's Fininvest company, while Panorama, the Berlusconi-controlled weekly, has specialised in "exposés" on the De Benedetti group.

The magistrates' inquiries have also taken the lid off another highly controversial aspect of media policy – the so-called Mammi law of the late 1980s, which attempted to impose order on the chaotic world of broadcasting.

WHO OWNS WHAT

Owner/dominant shareholder	Publication/broadcaster
Fiat	Corriere della Sera (indirectly) La Stampa
Cir (Carlo De Benedetti)	La Repubblica L'Espresso
Ferruzzi	Il Messaggero Telemontecarlo
Fininvest (Silvio Berlusconi)	Canale 5 Italia 1 Rete 4
Paolo Berlusconi	Il Giornale
Iri	RAI
Eni	Il Giorno

Here too, the focus is on Mr Berlusconi. The law, named after Mr Oscar Mammi, a former posts and telecommunications minister, sanctified Fininvest's control of Italy's three leading private television channels – a position many think places too much power in Mr Berlusconi's hands. But earlier this month, the new Ciampi government ordered a revision of the law.

Foremost among the law's critics are Italy's newspaper proprietors, who claim Fininvest has used its strong position in TV broadcasting to take too large a slice of the overall advertising cake.

The proprietors' criticisms backed by energetic lobbying has been influenced by the downturn in advertising during the recession. Though advertising revenues have fallen by less than 10 per cent for most newspapers in the past year, preliminary figures for this year suggest the drop is much sharper, with smaller regional papers being hardest hit.

Added to Mr Berlusconi's troubles is the Italian authorities' plan to impose tough new rules on the use of advertising slots in sponsored TV shows. The "breaks" – most common in the game shows pioneered by Fininvest channels – are an important source of revenue for the group. Typically, a show host cuts away from the contestants and scantily-clad show girls to extol the virtues of a sponsor's products. Fininvest claims curbs on breaks could cost it about L400bn a year.

Fininvest's recent named association in the corruption scandal has also exacerbated matters for Mr Berlusconi's group. But it need hardly be embarrassed by the company it keeps. Other large companies with media interests, such as Fiat, Olivetti (controlled by Mr De Benedetti's Cir group) Ferruzzi and Eni, have already made their debuts before the magistrates for a variety of alleged kickbacks to politicians.

The allegations of Fininvest's involvement in the corruption scandal come at a particularly sensitive time. The signing of a lucrative L420m contract by Mr Davide Giacalone, a consultant who helped Mr Mammi draft the original broadcasting rules, with Fininvest has come to light.

Fininvest says the contract with Mr Giacalone was entirely above board and the renumeration reasonable for his level of expertise.

The company has also responded to criticisms of its alleged media monopoly. It says in observing the Mammi law it has given up control of its three pay-TV channels for a minority stake. It has also sold Il Giornale, a highly-regarded Milan daily paper – though significantly, ownership passed to Mr Berlusconi's brother, Paolo. And its 45 per cent audience share of the three Fininvest TV channels is no higher than that of other single private television operators abroad, it claims.

Focus on the media has come at a time of unprecedented commercial ferment in the industry. Financial difficulties at Ferruzzi, the big private-sector industrial group, could soon put its newspaper (Il Messaggero) and national TV channel (Telemontecarlo) on the block. And Eni, the public-sector energy and chemicals group, has said Il Giorno, its Milan-based daily newspaper, is to be sold.

Finding buyers in a recession will not be easy. The international media boom of the mid-80s, which saw the arrival of huge cross-border takeovers, has long gone and many of the big media groups which grew through acquisitions are focusing on debt reduction.

Italian buyers could also prove difficult to find. The handful of very big companies such as Pirelli, have traditionally eschewed media interests and show no sign of changing their minds. Although their are indications that some smaller entrepreneurs could be interested, the assets likely to be for sale represent too big a mouthful for most of Italy's small-to-medium sized businesses leaders.

But it is possible that bankers may try to assemble consortia of investors for some of the assets up for disposal. This is a solution being considered for Il Giorno, Eni's Milan-based newspaper. Otherwise, proprietors may find themselves holding on to media assets for longer than hoped.